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IN THE

Supreme Court of the United States

October Term, 1949

No. 455

AUTOMATIC RADIO MANUFACTURING COMPANY, INC.,

Petitioner,

v.

HAZELTINE RESEARCH, INC.,

Respondent.

BRIEF FOR RESPONDENT

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Respondent.

BRIEF FOR RESPONDENT

I. Introduction.

This is an action brought by Respondent against Petitioner to collect delinquent royalties under a simple, non-exclusive patent License Agreement between the parties (R. 5-41). Petitioner is a manufacturer of radio and television receivers located in Boston, Massachusetts. Respondent is not a manufacturer but operates a laboratory in Chicago, Illinois, engaged in research and development work in the radio and television field and in rendering engineering assistance to its licensee manufacturers.

The Agreement in issue contains no provisions which in any way restrain competition or extend the lawful scope of the patent grant—there is no price fixing; there is no limitation upon production; there is no tying-in of sales of unpatented commodities; there is no provision of any kind that has been criticized by this Court or any other

Court. Petitioner has made this simple non-exclusive license uniformly available to all members of the radio industry.

There is no conflict between the decision below and the decisions of other circuits. Petitioner asserts conflict with applicable decisions of this Court but the assertion proves to be unfounded.

The Statement in the Petition (pp. 2-3) of the subject matter involved is inaccurate and incomplete; the Statement of the Case in Petitioner's Brief (pp. 2-8) is almost wholly wishful fiction and much of it is irrelevant; and the purported Questions Presented (p. 9) are "loaded" questions and do not represent issues presented by the facts of record. Therefore, Respondent finds it necessary to restate the essential facts of record and to reformulate the questions presented. The errors, inaccuracies, distortions and intemperate accusations found in Petitioner's Statement of the Case and throughout its Brief are so numerous that merely to restate them, together with the briefest of comment, would inordinately extend this Brief. However, collectively, these many misstatements paint a provocative and false picture of the actual situation. Therefore, to avoid any implied acquiescence by failure to refute the assertions of Petitioner's Statement, there are included as Appendix I, portions of Petitioner's Brief in question with appropriate corrections and comments set opposite thereto.

The Court's attention is directed to the fact that Petitioner's references to the Record in support of its distorted Statement are almost entirely to an affidavit of its counsel, George K. Woodworth (R. 172-197) comprising allegations which are general and sweeping in character and are mere opinions based on industry, gossip and rumor.

The Court of Appeals similarly characterized this affidavit:

> "• • • A lengthy affidavit executed by one of counsel for Automatic, and filed by Automatic in

> support of its motion for summary judgment, contains many sweeping claims and charges, but the affidavit was made for the most part 'on information and belief,' and not on personal knowledge, as required by Rule 56(e)" (R. 316-317).

Therefore, any assertions in the Petition or in the Brief, based on references to pages 172-197 of the Record, must be completely disregarded.

Petitioner's purported Statement of the Case is substantially a verbatim copy of corresponding portions of its Brief in the Court of Appeals. In view of its intemperate use of unfounded vilification and innuendo, the Court of Appeals found it appropriate to remark, with admirable restraint:

> "• • • In its brief, Automatic has enveloped the case in an atmosphere of overreaching and chicanery hardly warranted on the record • • • •". (R. 316).

Respondent is confident this Court will not be misled by this hallmark of an unsupportable case.

II. Statement of the Case.

Before discussing the immediate facts which precipitated this litigation, it may be helpful to the Court to review briefly the background of the relations between the parties. Respondent is not a manufacturer of apparatus in competition with Petitioner, but, as set forth in the affidavit of Mr. John R. Binns, Respondent's President (R. 79-86), Hazeltine* is and has been for more than twenty years an organization engaged in extensive research and development in the radio and television fields, having expended many millions of dollars in this effort, its budget for these purposes for the most recent full year having been $500,000.

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* For convenience, Hazeltine Corporation and its subsidiary companies Hazeltine Electronics Corporation and Hazeltine Research, Inc., Respondent herein, are collectively referred to as "Hazeltine."

This activity has contributed enormously to the promotion of "the progress of science and useful arts" as encouraged by the Constitution (Art. 1, Sec. 8). This extensive research work has resulted in numerous inventions which have been patented. Hazeltine freely licenses all manufacturers under such patents at a nominal royalty and also renders an extensive engineering, design, and testing assistance to its licensee manufacturers, which include many small companies which cannot afford expensive engineering departments of their own. This engineering assistance to small manufacturers *aids and promotes their ability to compete* with the larger integrated companies in this highly technical and rapidly advancing art. Its licensees number some 130 manufacturers, the majority of which are small companies, but the value of its contributions is also recognized by many of the major companies in the radio industry, such as Radio Corporation of America, Westinghouse, Zenith, Stromberg-Carlson, etc., which operate under license from Hazeltine (R. 79-80).*

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*Among Hazeltine's principal contributors to the progress of the radio and television art might be mentioned Professor Alan Hazeltine, whose inventions on the Neutrodyne receiver Hazeltine was originally organized to exploit, and Mr. Harold A. Wheeler associated with Hazeltine for more than twenty years. Professor Hazeltine is a physicist, scientist and inventor active in the radio field for more than thirty years; during World War I he was a consultant for the Navy and designed a receiver which went into widespread use in the Services; he joined Stevens Institute of Technology and rose through various grades to that of full Professor of Electrical Engineering and head of the department; he received the honorary degree of Doctor of Science from that Institute in 1933; he is a Fellow, the highest grade of membership, in the Institute of Radio Engineers, the American Institute of Electrical Engineers, the American Physical Society, and the American Association for the Advancement of Science; he is a past president of the Institute of Radio Engineers and has served that body on various occasions as a director and a member of its committees; he has published a large number of scientific papers over a period of years and is an author of a textbook on electrical engineering. Mr. Wheeler has been active in the radio field since 1924. He is a Fellow of the Institute of Radio Engineers, a Director thereof for several years, a member of its Board of Editors, and a Chairman or member of a large number of its committees; he is a Fellow of the American Institute of Electrical Engineers; in 1940 he received from The Institute of Radio Engineers the Morris Liebmann Memorial Prize for his outstanding work in broad-band high frequency amplifier circuits. In 1940 both Professor Hazeltine and Mr. Wheeler received the coveted Modern Pioneer Award on the occasion of the 150th anniversary celebration of the patent system.

Hazeltine's activities have not created a monopoly in any one or in any group of manufacturers; they have not reduced, but have greatly encouraged, competition.

Petitioner, desirous of obtaining rights under these patented inventions and the engineering services available, *voluntarily* took a license on October 1, 1935, but, *immediately after the issuance* of that license, it refused to make royalty reports or payments, advising Hazeltine's counsel by a letter of March 9, 1936,

> "that it is our present belief that our product does not embody any of the inventions described and claimed in the patents set forth in the license" (R. 81).

As a result, Hazeltine, on December 18, 1936, brought an action in the Massachusetts State Court to compel Petitioner to pay the royalties due under the license. After the filing of Interrogatories in that action, which showed a very extensive use of Hazeltine's patented inventions by Petitioner, that suit was settled and a Consent Decree was entered September 24, 1937 (Exh. P, R. 103), adjudging that Petitioner's entire production, constituting numerous models of radio broadcast receivers, embodied the inventions of twenty-seven of Hazeltine's patents and that such patents were valid (R. 80-81).

At the time of the entry of the Consent Decree, a general Settlement Agreement was executed (Exh. Q, R. 109) and Petitioner also *voluntarily* entered into a *second* license agreement dated October 1, 1937, for a period of 5 years, replacing the earlier license, which was terminated by mutual consent. For a period of about two and a half years thereafter, Petitioner did pay royalties under that second Agreement on the basis of its entire production of broadcast receivers, but such payments and reports were made belatedly in nearly every instance and only after insistent demands by Hazeltine.

About February, 1940, Petitioner *again* became delinquent and failed and refused to pay royalties and an application was made by Hazeltine to the Court to make the interlocutory Consent Decree final. Though opposed by Petitioner in some respects, such a Final Decree was entered on December 3, 1941 (Exh. R; R. 113), continuing in substance the provisions of the prior interlocutory Consent Decree (R. 81-82).

After the entry of the Final Decree, there were extended negotiations with respect to a settlement of Petitioner's unpaid royalties under the license of October 1, 1937, which ended in a *second* Settlement Agreement between Hazeltine and Petitioner on or about September 18, 1942, and the *voluntary* execution by Petitioner of a *third* license agreement dated as of September 1, 1942, which is the agreement here involved (Exh. A, R. 5; 81-82).

At the effective date of this current license, September 1, 1942, the country was at war and the production of all civilian radio apparatus was prohibited and this condition continued until August 30, 1945. Since the resumption of the manufacture of civilian radio apparatus, Petitioner has been engaged in the manufacture and sale of apparatus of the general nature of that outlined in subsections (a), (c), and (d) of Section 2 of Article III of the license (R. 8), particularly radio broadcast receivers (R. 83).

And now again, *for the third time*, Petitioner has refused to make royalty reports and payments. Therefore, this action was brought by Respondent to recover the royalties due it under that license agreement.

Petitioner is attempting to reap where it has not sown. In 1941 it was using the inventions of *twenty-seven* of the Hazeltine patents in various of its broadcast receivers (Exh. R, R. 113-116). In 1947 it was using the inventions of *ten* of the Hazeltine patents (Plaintiff's Answers to

Defendant's Interrogatories, R. 50-52). *This use of Hazeltine's patented inventions is not denied.*

These patented inventions are the partial fruits of millions of dollars spent by Hazeltine in research and development work in the radio field over a period of more than twenty years. Petitioner has made *no* contribution to the development of the art, but has chosen freedom to enjoy the fruits of Hazeltine's work under license but resists payment of its royalty obligations therefor.

The license agreement in issue is rather conventional in form and requires the payment of a moderate royalty of 1.05% upon the manufacturer's selling prices (with certain deductions) of, *inter alia*, complete radio broadcast receivers of sound (Article III, Section 2, subsection (a) (R. 8)). Since the license is granted under a large group of patents, since Hazeltine has more than 130 licensee manufacturers, and since each licensed manufacturer markets many different models of radio receivers each season, it was found in practice an uneconomic charge on *both licensor and licensee* to consider all of the permutations involved in comparing the many hundreds of models of licensed radio receivers with the claims of each of such group of patents. To do so might well involve engineering and accounting costs in excess of the royalties due. Therefore, in 1937, Hazeltine modified its standard license agreement by adopting a new yardstick for computing license fees. In its earlier licenses royalties were computed as stated percentages on apparatus specifically covered by the licensed patents. In the agreement adopted in 1937 and still in use, license fees are computed as stated percentages on all apparatus *of the type licensed* (R. 79-82). Such a provision in a license agreement has been approved by an unbroken line of authorities, discussed in the decision below; no authority has disapproved it (R. 300).

II(a). There is no restraint upon competition nor extension of the lawful scope of the licensed patents.

Petitioner's attack is leveled principally upon two clauses of the license agreement in suit:

(1) The license provision by which license fees are measured by licensee's sales of radio receivers irrespective of the extent of embodiment of the licensed patented inventions, which Petitioner asserts unlawfully extends the scope of the licensed patents, and

(2) The license notice provision informing of the scope of the licensee's license, which Petitioner asserts constitutes a restraint upon competition and trade and thus a "misuse" of the licensed patents.

In fact, there is no restraint upon competition nor any extension of the lawful scope of the licensed patents. The license agreement does not fix prices; it does not limit production; it does not restrict the licensee's freedom in the selection of its designs or the manufacture of its products; it does not tie-in sales of unpatented commodities; in fact it contains no provisions which in any way restrain competition, promote monopoly or extend the lawful scope of the licensed patents.

The provision for measuring royalties on gross sales of apparatus of the type licensed is not beyond Respondent's lawful exercise of its rights under licensed patents as alleged. The license clause in question grants the licensee the *right* to use not only any of the patents presently owned by Hazeltine but *also the right to use any of the future inventions* resulting from its extensive research and development during the term of the agreement. The payment for this privilege is measured as a nominal percentage of licensee's sales of apparatus of

the type licensed. This payment or "royalty" is more in the nature of a fee for the grant of complete freedom of design under all of licensor's *present and future* inventions. Any convenient and mutually agreed yardstick might be adopted for measuring the amount of such a fee.

Further, the license notice provision in issue does not in any way effect a restraint on trade or lessen competition; it is merely informatory of the scope of licensee's license, that is, broadcast receivers and related apparatus for home use. Apparatus intended for home use is of a design and construction substantially different than that intended for commercial use. Obviously, there is little similarity between a complex shipboard radar costing tens of thousands of dollars and a table model home radio receiver retailing for $12.95, and there is little likelihood that anyone would care to interchange their use. Hazeltine has two forms of license agreements, conveniently termed the "home" license and the "commercial" license, particularly adapted to different classes of apparatus. These licenses include different items of deduction in determining the base for royalty computations and different royalty rates, in order to accommodate the differences in commercial practices. Hazeltine freely grants both "home" licenses and "commercial" licenses *to all applicants*. If any licensee under a "home" license, such as Petitioner here, has a market for apparatus suitable for "commercial" use, all he need do is apply for a "commercial" license; in such case he pays a royalty on each apparatus under the applicable license, there is no double royalty. Some eight companies, both large and small, are now operating under both of Hazeltine's "home" and "commercial" licenses.

Thus, no licensee is *contractually prevented* by Hazeltine from selling any apparatus of any nature whatsoever; all of Hazeltine's licensees are *contractually free to compete* in all classes of apparatus; and Hazeltine's open license situation actually *promotes* competition in

the industry. If a "home" licensee, such as Petitioner, chooses to sell outside of his license in the "commercial" field without taking an additional license, he may do so, in common with all other non-licensees in this field, solely at the risk of infringement of applicable patents—not at the risk of breach of contract with Hazeltine.

The very nature of Respondent's business interests are completely antithetical to monopoly. Its income available for continuing research and development is derived solely from its license royalties; it is to Respondent's interest that its patented inventions be used under license as widely as possible and by the greatest number of licensee manufacturers.

The Courts below concurred in approving these two license provisions and in holding that they do not singly or collectively represent a misuse of Respondent's patents nor relieve Petitioner of its contractual obligation to pay royalties. The Courts below also concurred in holding the license agreement valid and enforceable and Petitioner, the licensee, estopped from contesting the validity of the licensed patents.

Actually the license notice provision is not properly an issue in this case for three reasons:

(1) This is not an action against a manufacturer who has exceeded his license by selling apparatus for unlicensed uses or against a purchaser who has put the apparatus to unlicensed uses. Respondent has not asked that the license notice provision of the license be enforced and the Judgment of the Trial Court (R. 293) does not enforce it. Therefore, the enforceability of this license clause is purely academic in this case.

(2) Since September, 1945, before the resumption of the manufacture of civilian radio apparatus at the con-

clusion of the war, Respondent has expressly waived the license notice provision in question. At that time Respondent notified Petitioner and all its other licensees in writing that, in lieu of the license notice specified in the license agreement forms, licensee might use the simple legend:

This apparatus is licensed under the
United States patent rights of
HAZELTINE CORPORATION

(Binns' Affidavit, Appendix II, pp. 78-80).

(3) The defense of alleged illegal license notice was not pleaded by Petitioner either in its Answer (R. 45) or in its Amended Answer (R. 71). Therefore, this issue is not properly presented for decision by this Court.

(4) Petitioner admits that it has not complied with the license notice provision of the agreement but has failed to apply license notices to its apparatus since the date of the agreement (R. 177) so that it cannot have been damaged thereby.

In brief, the enforceability and effect of the license notice provision of the agreement are moot questions in this case and certainly do not bar Respondent's right to recover delinquent royalties owed by Petitioner.

III. Questions Presented.

Petitioner's formulation of "The Questions Presented" (p. 9) is based on false factual premises and includes many malicious and unfounded innuendoes. Therefore, the questions actually presented by the *facts* of this case must be restated, the numbering corresponding to that of the Brief:

(1) May the owner of a group of patents resulting from its extensive research and development lawfully grant to all applicants simple non-exclusive licenses without price-fixing or other restrictive provisions and giving the licensee the right to use not only any number of its presently owned group of patents, but also a right to use any or all of the inventions which may, during the term of the license, result from licensor's continuing research and development, and including a provision under which royalties are computed at a nominal rate on the sales of apparatus of the type licensed, irrespective of the extent of use of the patents? This question should be answered "Yes."

(2, 3, 4) Is it a defense in a suit against a licensee for delinquent royalties that the owner of a group of patents resulting from its extensive research and development and having application to different classes of apparatus include in its license agreements issued under such patents a provision requiring the licensee to attach a notice to the licensed apparatus sold by it informing the public of the scope of its license? This question is not actually presented for decision but, if considered, should be answered "No."

(5) May a licensee under a simple non-exclusive patent license agreement containing no price-fixing or other restrictive provisions which, save for the existence of a valid patent, would run afoul of the anti-trust laws, challenge the validity of the licensed patents in an action to collect delinquent royalties? This question should be answered "No."

It is interesting to note that *none* of the defenses implicit in either Petitioner's formulation of the Questions Presented or in the correct formulation of these Questions above, was pleaded either in Petitioner's Answer (R. 45) or in its Amended Answer (R. 71).

IV. Argument.

A. General.

Petitioner's whole approach to its defense of this action reflects a studied disrespect for business honesty. Here we have a manufacturer who refuses to recognize its solemn contractual obligations, is haled into Court, makes a settlement and a new agreement, *only to repeat the process a second time and a third time.* The whole attitude of the company is reflected in the actions of its President, Mr. David Housman, on whose shoulders the obligations of an oath apparently weigh lightly. Mr. Housman filed an affidavit in support of Petitioner's Motion to Amend its Answer to allege fraud in the inducement of the license agreement (R. 71, para. 14). That affidavit stated (R. 72, 73), *inter alia:*

> "• • • at the time I was induced to acquire the patent license the principal patents with which I was concerned had been held to be invalid, the most important of all of them by the Supreme Court of the United States, *which facts were not known to me.* • • •
>
> "Reissue Patent No. 19,744 was invalidated by the Supreme Court of the United States on May 12, 1941, as reported in 313 U. S. 259." (Emphasis added.)

When confronted with a copy of Hazeltine's letter to him dated May 14, 1941, notifying him of the above-mentioned decision of the Supreme Court (R. 117) and his acknowledgment of such letter (R. 118), both some *16 months prior* to the execution of the license agreement, he callously stated (R. 197-201) that, with respect to his former affidavit,

> "• • • The statements contained therein were based solely on recollection"

of events occurring more than six years prior.

B. Summary of Argument.

This is an action for delinquent royalties under a patent license contract. The case presents a simple factual issue: Does the license unlawfully extend the scope of Respondent's exercise of its rights under its patents or does it restrain competition and promote monopoly? If it does not, then Petitioner has no case. It has been pointed out above (*supra*, pp. 8-10), and the concurrent decisions of the Courts below found on undisputed evidence, that in fact the license contract does not as a practical matter extend the scope of Respondent's exercise of its patent rights and it does not restrain competition or promote monopoly but, on the contrary, promotes competition. In accordance with principles long recognized by this Court, such concurrent factual findings of the lower courts should not be lightly overturned. As was said in *Williams Mfg.* v. *United Shoe Machinery* (1942), 316 U. S. 364, (p. 376):

> "• • • These are findings of fact, despite the petitioner's apparent contention to the contrary, and we will not disturb such concurrent findings where, as here, there is evidence to support them. • • •" Continental Paper Bag Co. v. Eastern Paper Bag Co., 210 U. S. 405, 416, 422; Adamson v. Gilliland, 242 U. S. 350.

Petitioner asserts no direct defense to the contract but attempts to evade its obligation to pay royalties by raising a number of spurious collateral issues which are insufficient in law and unfounded in fact. Respondent's Argument which follows will take up these collateral defenses in order.

C. The provision for the measurement of the license fee on all sales of apparatus of the type licensed does not, under the facts of this case, constitute a misuse of Respondent's patents (Question 1).

The facts are briefly these. The agreement in question grants a license to manufacture and sell certain types of radio apparatus (Article III, Section 2, R. 8). It conveys the *right or privilege* to make and sell apparatus under any one or more of the patents enumerated in the agreement and *also the right or privilege* to make and sell apparatus embodying any or all of the inventions which may emanate from the continuing research work of the Hazeltine laboratories during the term of the agreement (Article III, Section 1, R. 7). It provides that the licensee pay a nominal license fee measured as a percentage of the licensee's selling price of all apparatus of the type licensed (Article IV, Section 1, R. 9). This provision is one of several reasonable forms of charge sanctioned by custom and by authority for the measurement of royalties, among which may be mentioned monthly or annual flat sum payments; payments based on volume rather than price; royalties based on a percentage of the licensee's profits on the licensed apparatus; royalties based upon the selling prices of apparatus covered by claims of a specifically enumerated patent or patents; and licenses of either of the two latter types including a guaranteed minimum irrespective of any sales.

From the viewpoint of both the licensor and the licensee, the provision in issue has the advantage of great economies in accounting and other overhead costs; it avoids an examination of each new model sold by each licensee to determine if licensed patents are used; from the viewpoint of the licensee, it has the advantages of saving patent counsel and other fees and enabling the licensee to know in advance that each model will bear a fixed cost for

royalties so that it can price its receivers without waiting for the licensor to advise it if royalties are payable on any specific model. It is particularly advantageous to small licensees which do not maintain extensive legal and accounting departments and to which speed in merchandising is frequently vital to profitable operation in the intensely competitive radio industry; to such small licensees without individual research departments it is additionally an inexpensive insurance premium against failure on account of technical obsolescence in a rapidly advancing art.

Under such a license, the licensee has complete freedom of design under Hazeltine's present and future inventions. So far as the license agreement is concerned, licensee is free to market any type of apparatus he chooses without restriction; it can embody in any given receiver one patented invention or several patented inventions, as does Petitioner (R. 119-121), or it may embody none without losing its option to utilize such inventions in future apparatus. For this privilege the licensee pays a nominal royalty which, with deductions (R. 40), averages less than 1% of its selling price of apparatus within the field of the license, which corresponds to less than ½% of the retail list price of the apparatus (R. 249). This nominal royalty constitutes a mutually agreed evaluation of a reasonable return to licensor and a reasonable expense to licensee for intangible property rights respectively conveyed and received.

Even completely neglecting Hazeltine's present group of valuable patents, a licensee may have well justified faith in Hazeltine's continuing inventiveness and ingenuity so as to consider it good business insurance to pay a nominal fee for the right to be kept informed of the future developments of the Hazeltine laboratories and to use such of them as it chooses, whether or not such inventions result in valid patents. Certainly it can not be considered

illegal for a party to agree to pay such a nominal fee for the right to use any and all inventions which may be devised by a specialized research laboratory staff over a given period. In the instant case, licensee acquires that right and, *in addition and for the same nominal fee* the right to use any number of Hazeltine's present group of patents, of which Petitioner has liberally availed itself in all apparatus which it has sold (*supra*, p. 6). The lawful agreement to pay such a fee for the right to use Hazeltine's future inventions cannot be converted into an unlawful agreement by the inclusion of other rights, without additional charge, under Hazeltine's present patented inventions.

Petitioner may now consider that it made a bad bargain in agreeing to pay license fees on all receivers for the right to use Hazeltine's present patented inventions and future inventions whether or not patented, but there is nothing inherently illegal in computing license fees in this manner and it does not in any way enlarge the scope of Hazeltine's patent rights. This method selected by Hazeltine is merely one of several alternative ways of measuring license fees.

This type of royalty payment provision has received judicial sanction in all cases in which it has been considered.

Both the District Court and the Court of Appeals agreed that this was a legitimate and equitable business arrangement which did not in any way contravene the public interest. This was lucidly explained in the opinion of Judge Magruder (R. 319, 320):

> "*Royalty Payments.* It has been pointed out above that the license agreement gave Automatic the right to make use of any of Hazeltine's patents, and required Automatic to pay royalties measured by a percentage of the selling price of all radio apparatus of specified types manufactured and sold by Automatic, whether or not any particular apparatus in

fact utilized any of the inventions of the Hazeltine patents, with a minimum royalty payment of $10,000 a year. There is no valid objection to this sort of agreement; the parties are free to bargain as to the basis upon which the royalties are to be computed. *H-P-M Development Corp.* v. *Watson-Stillman Co.*, 71 F. Supp. 906 (D. N. J. 1947). *Cf. Pyfene Mfg. Co.* v. *Urquhart*, 69 F. Supp. 555, 560 (E. D. Pa., 1946); *American Optical Co.* v. *New Jersey Optical Co.*, 58 F. Supp. 601, 606 (D. Mass., 1944); *Ohio Citizens Trust Co.* v. *Air-Way Elec. Appliance Corp.*, 56 F. Supp. 1010, 1012 (N. D. Ohio, 1944). As stated in one of Hazeltine's affidavits, this type of royalty clause was originally adopted 'for convenience of accounting'. The Court below stated: 'This is a convenient mode of operation designed by the parties to avoid the necessity of determining whether each type of defendant's product embodies any of the hundreds of patents which plaintiff controls.' 77 F. Supp. at 496. Certainly a licensee, in consideration of the grant of the right to use a licensor's patent, may lawfully promise to pay the licensor a fixed sum per year during the life of the agreement; and this promise would not become unenforceable merely because the licensee in a particular year happened not to utilize the invention. If this is so, it would be no more against public policy to stipulate for a variable consideration by way of royalty for the right to use the patent, whether such consideration were expressed in terms of a percentage of the net profits of the licensee's business, or (as here) in terms of a percentage of the selling price of certain apparatus manufactured and sold by the licensee. Depending on the circumstances such a percentage royalty might well be a lesser charge upon the licensee's business than a stipulation for payment of a flat sum yearly."

In addition to the authorities cited above, the same ruling has been followed elsewhere:

International Carbonic Engineering Co. v. *Natural Carbonic Products, Inc.* (S. D. Cal., 1944), 57 F. Supp. 249; affirmed (C. A. 9, 1946); 158 F. (2d) 285;

United States v. *United States Gypsum, et al.* (D. Col., 1946), 67 F. Supp. 397 (Reversed on other grounds, 333 U. S. 364);
Hazeltine Research, Inc. v. *Admiral Corp.* (N. D. Ill., 1949), 87 F. Supp. 72;
Hazeltine Research, Inc. v. *De Wald Radio Corp.* (N. Y. Sup. Ct., 1948), 84 N. Y. S. (2d) 597; 79 U. S. P. Q. 446.

The latter two cases are of interest in view of the fact that the same defense of misuse of patents because of this same license provision was vigorously urged by counsel for defendant in each of those cases, who is also counsel for Petitioner here.

The *De Wald* case is of particular interest since it is a statement of the New York Law, which the contract in issue expressly provides is the applicable law (R. 14) and which the Court below correctly applied (R. 325). In the *De Wald* case, Justice HOFSTADTER stated the rule (p. 603):

> "The fourth defense alleges a misuse of the patents here involved by reason of the requirement for the payment of royalties on devices which do not incorporate the plaintiff's patents. But it has been held that such provision, without more, merely fixes the measure of compensation for the license and is not unlawful. Ohio Citizens Trust Co. v. Air-Way Electric Appliance Corp., 56 F. Supp. 1010, 1012 (62 U. S. P. Q. 493, 494-495). This defense is, therefore, insufficient."

The reasoning of the Court in the *United States Gypsum* case, *supra*, is persuasive. That case was an action by the United States against U. S. Gypsum and a number of its licensees charging violation of the Sherman Act. The theory of the complaint was that through their license agreements the defendants had entered into a conspiracy in restraint of trade. The licenses provided that the

royalty payable for the privilege of manufacturing, using, and selling gypsum board under the patents was an amount equivalent to the designated percentage of the licensees' sales of *all* gypsum board manufactured by them, whether patented or not. The Government's position was that this provision constituted a misuse of the patents.

In sustaining the right of a licensor to provide for such a determination of royalties, a special three judge statutory Court held (67 F. Supp. 397) (p. 470):

> "* * * This royalty provision is in effect a provision for a percentage of gross sales, and as such is but a convenient means for measuring the amount to be paid for the privilege of using the patents. It might with equal propriety have been a lump sum. * * * this provision in the license agreements can hardly be looked upon as an attempt to impose a royalty upon an unpatented product."

The facts in the *Pyrene Manufacturing* case, cited by Judge MAGRUDER, *supra*, were quite similar to those present here. Pyrene brought an action for a declaratory judgment of patent invalidity relative to two patents owned by Urquhart and the latter counterclaimed for patent infringement. The patents related to the method of and apparatus for distributing foam. Plaintiff alleged misuse of the patents by the defendant in its method of computing royalties. The Court approved such royalty provisions, but found misuse of the patents on other grounds, saying (p. 560):

> "The Urquharts do not manufacture or sell any equipment or any material used with it, but confine their business to the granting of licenses. They are willing to grant licenses both to persons desiring to manufacture and sell the equipment and to persons desiring merely to use the patented process. The manufacturers who have taken licenses make and sell unpatented stabilizer as well as the patented equipment. Under the Urquhart licenses they pay royal

ties based on both the price which their customers pay for the equipment and the price which they pay for the stabilizer. *So far as the royalty which the manufacturing licensees pay is concerned, the arrangement is not objectionable, since any convenient method of fixing a royalty fee may be adopted, including using the price of unpatented articles sold with the equipment as a basis.*" (Emphasis added.)

In the *H-P-M Development* case, cited by Judge MAGRUDER, *supra*, the Court expressly distinguished a royalty provision of the type here involved from the practice condemned in *Mercoid* v. *Mid-Continent* (320 U. S. 661) and related cases. That case was an action under a license agreement covering hydraulic presses and control circuits. The license contract included, *inter alia* the provision (p. 912):

"• • • It is contemplated by the parties that in practice one or more patents and inventions of hydraulic will be embodied in the foregoing subject matter on which the royalty will be paid, and as a matter of convenience in accounting, said royalty will be paid on all the foregoing apparatus irrespective of whether or not any particular patent or patents of Hydraulic are embodied therein"—(Art. 4c).

The Court denied defendant's motion to dismiss on the ground that the royalty provisions were illegal, saying (p. 910):

"• • • *defendant contends that the contract unlawfully ties in as a condition of the license a provision that defendant shall pay a royalty on all of its hydraulic presses of the certain kind, whether or not covered by any patents of plaintiffs* included in the license or whether or not the patents of plaintiff have expired or whether or not such patents are valid.

"*The instant case differs from Mercoid Corporation* v. *Mid-Continent Investment Co.* and Philad Company v. Lechler Laboratories, Inc., supra, *in that*

royalty here is not based solely upon the unpatented part of the whole. On the contrary, it covers the whole which of course includes unpatented parts.

"Here again we are unable to say that there is any illegality about this arrangement. The language of the provisions alone or inferentially creates no design to extend patent monopoly or restrict competition. *It seems that the arrangement is consistent with the convenience of the parties and the holding in the case of American Optical Co. v. New Jersey Optical Co., supra, appears applicable.*" (Emphasis added.)

Here, if ever, is an appropriate case in which to invoke the principle of stare decisis and impart some stability to the law to avoid the severe penalties otherwise attaching to ordinary business men who in good faith adopt practices specifically approved (and never disapproved) by a wide range of authorities.

(1) Judge Woodbury's Dissenting Opinion.
(R. 329-330)

In his dissenting opinion below, Judge WOODBURY disagreed with the majority as to the *effect* of the license in issue and on this *factual difference* thought applicable the decisions of this Court in the following cases:

Morton Salt v. *Suppiger*, 314 U. S. 488, 491;
B. B. Chemical v. *Ellis*, 314 U. S. 497, 498;
Mercoid v. *Midcontinent*, 320 U. S. 661, 665.

The facts of those cases are pivotally distinguishable and Judge WOODBURY's lack of comment on them leaves his dissent empty and unpersuasive.

In the *Morton Salt* case, Suppiger owned a patent on a machine for automatically dispensing salt tablets, useful in the canning industry. It granted licenses requiring

the licensees to use the patented machines only with unpatented salt tablets sold by it. Suppiger brought an action of infringement with respect to machines sold to the canning industry by Morton. The defense was that Suppiger was guilty of illegal restraint of trade in the sale of the unpatented salt tablets.

In denying relief to Suppiger because of unclean hands arising from its illegal practices, Mr. Justice STONE said (p. 491):

> "It thus appears that *respondent is making use of its patent monopoly to restrain competition* in the marketing of unpatented articles, salt tablets, for use with the patented machines, *and is aiding in the creation of a limited monopoly* in the tablets not within that granted by the patent. A patent operates to create and grant to the patentee an exclusive right to make, use and vend the particular device described and claimed in the patent. But a patent affords no immunity for a monopoly not within the grant, Interstate Circuit v. United States, 306 U. S. 208, 228, 230; Ethyl Gasoline Corp. v. United States, 309 U. S. 436, 456, and *the use of it to suppress competition in the sale of an unpatented article* may deprive the patentee of the aid of a court of equity to restrain an alleged infringement by one who is a competitor. * * *" (Emphasis added.)

Neither the facts nor the rule of law involved in the *Morton Salt* case has any application here. The holding of this Court in the *Morton Salt* case was directed to the situation where the patent owner uses his patent to restrain competition by tying-in sales of unpatented commodities, thus *creating a monopoly in a field outside the patent grant.* The facts of the present case distinguish it from the *Morton Salt* case in two essential respects:

(1) There is no use of any patent rights by Hazeltine "to restrain competition in the marketing of unpatented articles" or in *any* articles. Hazeltine does not itself manu-

facture any apparatus of the type licensed and therefore does not restrain any competition with it. The license includes no restrictions of any kind bearing on competition by the licensees with Hazeltine or with each other.

(2) As a corollary of (1), Hazeltine is not using its patents for "aiding in the creation of a limited monopoly" or in any monopoly of any kind. It freely licenses all manufacturers at a nominal royalty and provides engineering assistance to its licensees, including many small companies which could not afford extensive engineering of their own (R. 80), and thus actively *promotes* competition in the industry, the very antithesis of monopoly.

In the *B. B. Chemical* case, that company owned a patent on a method of reinforcing the insoles of shoes. It supplied machines for practicing the method to various shoe manufacturers, retaining ownership of the machines, and also supplied unpatented materials for use with the machines in practicing the patented method. The lower courts held that this practice operated as a license to use the patented machine only with the unpatented material and thus restrained competition with B. B. Chemical in the sale of the unpatented materials.

This Court found that the issue was the same as that involved in the *Morton Salt* case, saying (pp. 497, 498):

> "But in view of petitioner's use of the patent as the means of establishing a limited monopoly in its unpatented materials, and for the reasons given in our opinion in the Morton Salt Company case, we hold that the maintenance of this suit to restrain any form of infringement is contrary to public policy, and that the district court rightly dismissed it."

In the *Mercoid* case, Midcontinent owned a patent on a domestic heating system. It granted an exclusive license to Minneapolis-Honeywell, the royalty payments to be based *only* upon the sales of an unpatented switch, which was an

element of the combination claimed in the patent. None of the parties involved actually sold or installed complete heating systems, but Minneapolis-Honeywell sublicensed heating contractors to use the patented system provided the sub-licensee used *only* unpatented switches purchased from it. This Court did not condemn the provision for royalty measurement there involved but found that (p. 663):

> "There was ample evidence to sustain the findings of the District Court that respondents endeavored to use the license agreement so as to prevent the sale or use of combustion stoker switches in these heating systems unless they were the switches made by Minneapolis-Honeywell and purchased from it or its sublicensees."

Midcontinent brought an action for contributory infringement against Mercoid on account of its sales of unpatented switches for use in the patented heating system. It appeared that such switches had no use other than in the patented system. In holding that Midcontinent was barred from recovery because of its misuse of its patent, this Court said (pp. 666, 667):

> "• • • The struggle is not over a combination patent and the right to make or vend it. *The contest is solely over unpatented wares* which go into the patented product. Respondents point out that the royalties under the license are measured by the number of unpatented controls which are sold and that no royalty is paid unless a furnace covered by the patent has been installed. But the fact remains that *the competition which is sought to be controlled is not competition in the sale of the patented assembly but merely competition in the sale of the unpatented thermostatic controls.* The patent is employed to protect the market for a device on which no patent has been granted. • • •". (Emphasis added.)

Thus in each of the three cases under discussion the gravamen of the objection to the patent owner's practices

was that he was using a patent on *one entity* (machine or process) to restrain competition and create a monopoly in *another and unpatented entity*. These cases have nothing to do with a contract under which royalty payments are made for the *right to use* present *and future* inventions in a particular class of apparatus and in which such payments are made without regard to the extent of use of the licensed inventions, which is the situation presented here. This distinction was brought out clearly by the Court of Appeals as follows (R. 320):

> "A different problem would be presented if the license agreement had provided that, in part consideration for the right to make use of Hazeltine's patents, Automatic agreed not to compete in the commercial field in the manufacture and sale of any radio apparatus of the types enumerated, even though such apparatus did not embody any of the inventions covered by Hazeltine's patents. Such an agreement might be unenforceable as constituting an unlawful attempt to extend the monopoly of licensor's patents beyond the limits of the patent grants. But as we read the license agreement in the case at bar, Automatic would not break the agreement by manufacturing and selling for unrestricted use radio apparatus which in fact does not embody any of the inventions covered by Hazeltine's patents. This is true notwithstanding the fact that Automatic, in making such a sale, would be required by Article IV, Section 1, of the agreement to pay to Hazeltine the stipulated percentage of the selling price as royalty for the *right* to utilize the patents covered by the license agreement."

A further important fact distinguishing the instant case from those discussed above is that the license *sub judice* is not merely a license under a single patent; it is a grant to the licensee of the *right or privilege* of using any, or all, of the group of patented inventions now owned by Hazeltine and *in addition* a grant of the right to use any inventions which may be acquired by Hazel-

tine during the term of the agreement either from its extensive research and development activities or otherwise. There is nothing remotely illegal or against public policy in an unrestricted contract available to anyone in the industry which guarantees to a licensee a license under all of the future fruits of an extensive research laboratory for a period of years at a nominal rate of royalty based on sales in the field of activity of the laboratory. Thus, the license agreement must be sustained on this ground independently, even if Hazeltine had *no patents at present* and even though *no patented inventions should result* from such research work. The decision of the Court below on this issue is not in conflict with any prior decision of this Court or the Courts of Appeals of other Circuits. Moreover, it is based on sound legal and equitable principles and should be affirmed by this Court.

(2) Petitioner's Argument
(Petitioner's Brief, pp. 12-30)

Basically Petitioner's challenge of this provision of its license agreement is that it requires the payment of royalties on *unpatented* radio receivers. Actually this issue is moot in this case for Petitioner has used and is using the Hazeltine patented inventions extensively in all of its radio receivers. In 1941 it was using *twenty-seven* Hazeltine patents (Exh. P, R. 103). It is still admittedly using *ten* patented inventions of Hazeltine (R. 50-52; *supra*, pp. 6-7). In fact, there is no evidence here that radio receivers marketed by other licensees differ from those of Petitioner and thus there is *no evidence that any unpatented apparatus is being sold by any licensee.* This whole question rests upon a flimsy, hypothetical assumption of Petitioner that unpatented apparatus is being sold by Hazeltine's licensees.

In the portion of its Brief dealing with this question Petitioner reaches the zenith of its reckless abuse of Hazeltine and the nadir of its logic. It resorts to name calling (racketeers, p. 27) and postulates an insinuating hypothetical example (p. 27) which is malicious but purely frivolous. Petitioner's purported factual discussions and implied assumptions in its Argument at this point understandably include no supporting references to the Record; they are pure fantasy.

Petitioner advances the novel contention (p. 24) that the mere fact that Hazeltine has made numerous major and minor advances in the art as a consequence of its general research and development work over a period of years, resulting in a large number of patented inventions, should inflict some sort of a penalty upon Hazeltine. Hazeltine's efforts to comply with the Constitutional injunction "to promote the progress of science and useful arts" (Article I, Section 8) over a period of some 24 years has been intensive, extensive, and expensive. Its efforts have been recognized by the leaders in the industry who have utilized its inventions under license (R. 79-80). This work has been a major contributing factor to the progressive reduction in cost and improvement in performance in radio receivers during the last 20 years. Respondent knows of no authority on patent matters which has considered itself above the United States Constitution and attempted to nullify the express Constitutional provision by attaching a penalty to any organization actively engaged in promoting the progress of the useful arts and thereby creating a large number of patentable inventions. Petitioner has cited no such authority.

Petitioner rests its case basically on the prior decisions of this Court which have prohibited attempts of patent owners to extend the scope of the licensed patents beyond the statutory grant, saying (p. 12):

> "Such prior attempts (to extend patent monopoly) have been directed towards (a) requiring the purchase of unpatented goods from the patentee for use with patented apparatus or processes, (b) prohibiting the purchaser or lessee of patented apparatus or the licensee under patents from producing or selling unpatented competing goods or (c) conditioning a license under one monopoly grant upon accepting another and different license (block-booking)."

Petitioner then discusses (pp. 12-22) a number of decisions of this Court bearing on the three named types of monopoly extensions. But the fallacy in this position is that none of the three prohibited practices is involved here and none of the cases discussed is relevant. There is not present here: (a) any requirement for the purchase of unpatented goods from Hazeltine or from anyone; (b) any prohibition on the licensee against the manufacture of any type of apparatus whatever; or (c) any conditioning of the license upon acceptance by the licensee of another and different license.

While none of the cases relied on by Petitioner is any way inconsistent with the large number of authorities cited and discussed above (pp. 17-22) which have uniformly approved the measurement of royalties on gross sales of apparatus of the type licensed, comment seems appropriate on the cases of *United States* v. *Paramount Pictures*, 334 U. S. 131 and *United States* v. *U. S. Gypsum*, 333 U. S. 364, in view of the unusual emphasis put upon them by Petitioner. The *Paramount Pictures* case condemned "block booking." In the portion of the opinion quoted by Petitioner, this Court carefully defined "block booking" and quoted with approval from the opinion of the Trial Court to the effect that

> "Block booking . . . adds to the monopoly of a single copyrighted picture that of another copyrighted picture *which must be taken and exhibited*

in order to secure the first'." (Emphasis added; pp. 156, 157.)

Under the license agreement here in issue, the licensee is not required to use any unwanted patented inventions. He merely pays a nominal royalty of less than 1% for the *right or privilege* of using any desired ones of Hazeltine's group of patented inventions *and* any desired ones of the future inventions coming out of the continuing research work of the Hazeltine laboratories during the term of the agreement. This practice has no relation to "block booking."

The *U. S. Gypsum* case was an action by the United States against U. S. Gypsum and a number of its licensees charging violation of the Sherman Act. The theory of the complaint was that through their license agreements the defendants had entered into a conspiracy in restraint of trade. The licenses provided that the royalty payable for the privilege of manufacturing, using, and selling gypsum board under the patents was an amount equivalent to the designated percentage of the licensees' sales of *all* gypsum board manufactured by them, whether patented or not. The District Court dismissed the complaint. While this Court did reverse the judgment of the Trial Court in that case, it did not reverse the holding quoted above (p. 20). The essence of the decision of this Court in the *U. S. Gypsum* case is that where a licensor and a number of licensees, *acting in concert*, devise a license agreement including a number of restrictive clauses which, but for the existence of valid patents, would represent violations of the anti-trust laws, the arrangement comprises effectively a *conspiracy* in restraint of trade and is illegal, even though it is assumed that the license agreement is perfectly legal when issued by a licensor to its licensees without any concerted action. This is borne out by the following references to the opinion of this Court:

"• • • The complaint charged that the appellees had violated both Secs. 1 and 2 of the Sherman Act by conspiring to fix prices on patented gypsum board and unpatented gypsum products, to standardize gypsum board and its method of production for the purpose of eliminating competition, and to regulate the distribution of gypsum board by eliminating jobbers and fixing resale prices of manufacturing distributors (p. 367; this Court found that the evidence supported these charges).

"Appellees admit that in the absence of whatever protection is afforded by valid patents the licensing arrangements described would be in violation of the Sherman Act" (p. 386).

This Court further held that the particular license provision in question, basing royalties on gross sales, *taken in conjunction with other evidence,* showed a *conspiracy* to restrict the production of unpatented products:

"• • • The provision in the license contracts that royalties should be paid on the production of unpatented board is strongly indicative of an agreement not to manufacture unpatented board, *and the testimony of the witnesses is ample to show that there was an understanding, if not a formal agreement, that only patented board would be sold.* Such an arrangement in purpose and effect increased the area of the patent monopoly and is invalid" (Emphasis added; p. 397).

It is clear throughout this Court's opinion that it *assumed* the legality of the license agreement *sub judice,* when separated from its conspiratorial context:

"• • • Even in the absence of the specific abuses in this case, which fall within the traditional prohibitions of the Sherman Act, it would be sufficient to show that the defendants, *constituting all former competitors in an entire industry, had acted in concert,* to restrain commerce in an entire industry under patent licenses in order to organize the industry and stabilize prices. *That conclusion follows de-*

> *spite the assumed legality of each separate patent license;* for it is familiar doctrine that lawful acts may become unlawful when taken in concert" (Emphasis added; p. 401).

* * * * * *

The authorities cited by the Court of Appeals (R. 319) and those cited above (pp. 18-19), have adopted a practicable and reasonable rule and one that does not extend the patent monopoly or otherwise impinge upon the public interest. No authorities have reached a different conclusion.

Petitioner (p. 23) makes a number of distorted, unsupported and untrue allegations as to Hazeltine's conduct of its business. Understandably, it gives no supporting references to the Record. Thus, Petitioner asserts (p. 23): (1) that Hazeltine has organized a "pool" of 700 patents and patent applications; (2) that in that group of patents and applications there is "not a single valid patent"; and (3) that Hazeltine

> "makes no attempt to seek a return based upon use of these patents. Rather, it brazenly exacts a tribute upon the entire production of its licensees, both patented and unpatented."

This is sheer unfounded vilification. In the first place, Hazeltine has no "pool" of patents within the ordinary meaning of that term (Appendix I, pp. 71-72). Secondly, the statement that none of this large group of patents, granted to Hazeltine as a result of its extensive research and development work over a period of some twenty years, is valid is indicative of Petitioner's supreme contempt for the United States Patent Office and for our entire patent system. Lastly, there is no evidence in this case that any royalties have ever been paid to Hazeltine on any unpatented apparatus.

At pages 24-34 of its Brief, Petitioner attempts to show that white is black; that measurement of royalties on gross sales of apparatus of the type licensed:

> "is exactly analogous to the requirement that unpatented goods be purchased from the patent holder" (p. 25).

The difficulty with this assertion is that there is no evidence to support it and it simply is not true. Licenses "tying-in" the sale of unpatented commodities have the practical effect of restraining competition in such commodities and that is their sole purpose. In the case at bar, as previously pointed out (*supra*, pp. 7-10), there is absolutely no restraint on competition. *There is no compulsion on licensee to buy or sell or not to buy or sell any apparatus from anyone.* The effect of the royalty provision is to insure to Hazeltine a reasonable reward for the use of its patents on a practical business basis.

Petitioner (p. 29) attempts to distinguish in principle between a royalty of a fixed sum per year and a royalty on gross sales of apparatus of the type licensed on the ground that the former represents an actual evaluation of the licensed patents while the latter does not, because of possible changes in the extent of use of the licensed patents. The distinction is unsound. In fact, any basis of royalty payment other than that measured directly and solely by the extent of use of the licensed inventions will not continually reflect the party's original evaluation of the licensed patents when subsequent fluctuations in the extent of use occur. Yet no one, not even Petitioner, has questioned the legality of a fixed sum annual royalty payment. On principle, the measurement of royalties on the gross sales of apparatus of the type licensed is equally unassailable.

(3) The Department of Justice Brief (Question II, pp. 19-25).

The Department of Justice's criticisms of the royalty provision in issue appear to be largely economic rather than legal and stem from a number of erroneous factual assumptions and premises which it apparently believed to raise questions of restraint of trade and unlawful extension of patent rights:

(a) It assumes that the royalty provision in issue inherently and necessarily constitutes a "toll on unpatented apparatus" (p. 19) repeating and ringing the changes on this proposition over and over. The evidence is to the contrary. Petitioner has embodied the inventions of *ten* Hazeltine patents in its receivers (*supra*, pp. 6-7). Those receivers are typical of the receivers marketed by other licensees, although many licensees make even more extensive use of the Hazeltine inventions. *There is no evidence, nor even any assertion, that any licensee ever sold any radio receivers that did not embody any of the Hazeltine patented inventions.*

(b) The Department of Justice Brief considers only Hazeltine's present and existing patented inventions, completely disregarding the fact that the licensees also acquire the right or option to use any or all of the *future* inventions coming from Hazeltine's extensive research and development work. It has been pointed out above (pp. 16-17) that this right to future inventions alone may well be adequate and legal consideration for the nominal royalty which licensee pays and that the addition of rights under Hazeltine's present patents, whether or not valid, does not convert such a legal bargain into an illegal one.

(c) It further asserts (p. 28) that the license provision was adopted to avoid attempts by the licensees to minimize royalty payments by refusing to make widespread

use of the Hazeltine inventions. However, in licenses under groups of patents, such as present here, the general custom is to charge a single rate of royalty irrespective of whether the licensed apparatus embodies the invention of a single claim of a single patent or the inventions of a number of claims of each of a number of patents. Therefore, a licensee using one claimed invention might use as many as he considered advantageous without increasing his royalty payments. In any event, it completely overlooks the practical fact that the royalty rate is so low that it does not influence the design of radio receivers—the controlling factors are material and labor costs and performance.

(d) The Department of Justice Brief suggests (p. 25) that the license provision distinguishes in principle from an annual fixed-sum payment since the latter is an overhead expense while a royalty based on sales increases unit costs. This assertion overlooks the fact that the overhead is just as much an element of unit cost as a percentage on sales, though it may fluctuate up and down with the volume of sales. There is no difference in principle.

The Department of Justice Brief in footnotes to pages 20 and 21 cites the case of *United States* v. *U. S. Gypsum*, 333 U. S. 364, in support of its attack on the royalty provision in issue.

That case was an action by the United States against U. S. Gypsum and a number of its licensees charging violation of the Sherman Act. The theory of the complaint was that through their license agreements *the defendants had entered into a conspiracy in restraint of trade*. In that case, this Court did not condemn, but impliedly sanctioned, the measurement of royalties on the gross sales of the licensee (*supra*, pp. 30-32). What this Court condemned in that case were the restrictive agreements *entered into in concert by all competitors in an industry*. The situation

presented here is the very antithesis of a restraint of trade. Hazeltine readily grants licenses to *all* applicants under *all* of its inventions at a nominal "royalty", thus *promoting* competition. *It has not acted in concert* with any number of its licensees. Furthermore, *it would not be possible* for Hazeltine or its licensees to establish any monopolistic prices or restraints on trade since a large segment of the radio industry, including such leading companies as Emerson, Motorola, General Motors, Crosley and Admiral, operates outside the Hazeltine license in competition with Hazeltine's licensees (R. 249-250).

In the footnote at page 20, the Department of Justice criticizes the cases on which the Court below relied (R. 319) in sustaining the license provision in question and alleges that they factually distinguish from the instant case. However, the distinctions are immaterial details—the cited cases all involve the same basic principle (See also the additional cases cited and discussed above, pp. 18-20). At page 24, the Brief refers to *Pope* v. *Gormully*, 144 U. S. 224. It is shown below (pp. 57-59) that the facts and ruling of that case have no application here.

In conclusion, the Brief suggests that this case be remanded to determine the "effect upon competition" of the license provision in controversy. There is no evidence that it has any effect on competition and as a fact it does not have. The Department of Justice is creating a new and different controversy rather than aiding the disposition of the issues presented.

It has been shown (*supra*, pp. 8-10) that the license agreement in suit does not in any way tend to restrain trade or extend the lawful scope of licensed patents but, on the contrary, actually promotes competition. The criticisms of the Department of Justice are unrealistic and based upon hypothetical assumptions of what, under other circumstances, might happen. They do not provide a use-

ful guide in resolving the practical controversy before this Court.

D. The License Notice specified in the Agreement merely informs the public of the limits of licensee's rights and does not constitute a misuse of the licensed patents (Questions 2, 3, and 4).

The license notice provision of the Hazeltine license reads:

> "Licensed • • • only for use in homes, for educational purposes, and for private, non-commercial use, under one or more of the following patents and under pending applications:"

followed by the word

> "Patent • • •." (Exh. A, Article VI, Section 2; R. 14.)

This notice is *exactly commensurate with the scope of the license* granted:

> "Section 2. The apparatus for which the said license is granted is as follows; the use in each case is limited to use in homes, use for educational purposes and private non-commercial use:
>
> "(a) Complete radio broadcast receivers of sound; (etc.) • • •" (Exh. A, Article III, Section 2; R. 8.)

Thus, neither the license itself nor the license notice contractually restrains any manufacturer from making and selling any type of apparatus it chooses. The license notice in question does not constitute a misuse of patents.

In any event, Petitioner in this case is not relieved from its obligation to pay royalties merely because of the license notice provision for any of three reasons:

(a) The license notice is of the type expressly approved by this Court in the case of *General Talking Pictures* v. *Western Electric* (304 U. S. 175; 305 U. S. 124).

(b) The license notice in question is not properly an issue in this case because, as pointed out above (pp. 10-11), Petitioner has not complied with it; because the license notice has been waived for more than four years; and because it was not pleaded as a defense.

(c) The license notice in question does not go to the essence of the agreement and is a severable provision. Even if it were unenforceable, it would not render the whole agreement unenforceable.

(a) *The license notice was expressly approved by this Court in the General Talking Pictures case.* In that case, American Telephone and Telegraph Company, through its subsidiary Western Electric, had granted a non-exclusive license under certain patents relating to amplifying equipment to American Transformer Company. The Court described the license notice (p. 180) as

> "* * * stating in substance that the apparatus was licensed only for radio amateur, experimental and broadcast reception under the patents in question. * * *"

The parallel between that license notice and the one in issue is exact. American Transformer made for and sold to defendant amplifying equipment of the licensed type but for use in the talking picture field, an unlicensed field, even though defendant knew of the restrictions on the license. In accordance with the requirements of the license, these equipments carried a notice as to the restricted field of use. In an infringement action brought against defendant, this Court found that the restriction as to use was a legal and permissible limitation on the license stating (p. 181):

> "Patent owners may grant licenses extending to all uses or limited to use in a defined field. *Rubber Com-*

pany v. *Goodyear*, 9 Wall. 788, 799, 800. *Gamewell Fire-Alarm Telegraph Co.* v. *Brooklyn*, 14 Fed. 255. *Dorsey Rake Co.* v. *Bradley Co.*, Fed. Cas. No. 4,015, 7 Fed. Cas. 946, 947. Robinson on Patents, Secs. 808, 824. Unquestionably, the owner of a patent may grant licenses to manufacture, use or sell upon conditions not inconsistent with the scope of the monopoly. *Bement* v. *National Harrow Co.*, 186 U. S. 70, 93. *United States* v. *General Electric Co.*, 272 U. S. 476, 489. There is here no attempt on the part of the patent owner to extend the scope of the monopoly beyond that contemplated by the patent statute. Cf. *Carbice Corp.* v. *American Patents Corp.*, 283 U. S. 27, 33. *Leitch Mfg. Co.* v. *Barber Co.*, 302 U. S. 458."

Subsequently, a reargument was permitted and again this Court expressed its approval of the limitation as to use, as follows (p. 427):

"The question of law requiring decision is whether the restriction in the license is to be given effect. That a restrictive license is legal seems clear. *Mitchell* v. *Hawley*, 16 Wall. 544. As was said in *United States* v. *General Electric Co.*, 272 U. S. 476, 489, the patentee may grant a license 'upon any condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure'. The restriction here imposed is of that character. The practice of granting licenses for a restricted use is an old one, see *Rubber Company* v. *Goodyear*, 9 Wall. 788, 799, 800; *Gamewell Fire-Alarm Telegraph Co.* v. *Brooklyn*, 14 F. 255. So far as appears, its legality has never been questioned. * * *"

Consequently, the Court continued (p. 127), there was

"* * * no occasion to consider what the rights of the parties would have been if the amplifier had been manufactured 'under the patent' and 'had passed into the hands of a purchaser in the ordinary channels of trade.' Nor have we occasion to consider the effect of a 'licensee's notice' which purports to restrict the use of articles lawfully sold."

The *General Talking Pictures* case received unusually careful consideration by this Court. It was covered in a decision at 304 U. S. 175; corrected in language at 304 U. S. 546; affirmed on rehearing at 305 U. S. 124; and further rehearing denied at 305 U. S. 675. On rehearing the Solicitor General appeared as *amicus curiae*. Each decision was accompanied by a detailed dissenting opinion. Respondent and the public generally were therefore fully justified in regarding that decision as a final statement of the law. No later authorities have in any way modified the ruling of the *General Talking Pictures* case. No rational basis is advanced for urging this Court to reverse itself to the serious detriment of patentees and industry at large who have acted in reliance upon its decisions. If there were ever an instance for appropriately invoking the doctrine of *stare decisis*, this would seem to be it.

(b) *The license notice in question is not properly an issue in this case.* Petitioner admits that it has not complied with the license notice provision of the agreement since the date of the agreement (R. 171) so that it can not have been damaged thereby. Respondent has not asked that this provision of the license be specifically enforced and the judgment of the Trial Court (R. 293) does not enforce it. In view of these facts, Petitioner can not have been damaged in any way by the license provision and is in no position to urge its illegality.

Furthermore, the license notice in question was waived with respect to all licensees, including Petitioner, in September, 1945 (*supra*, p. 9). Hazeltine has since September, 1945, continuously and uniformly followed the practice of granting to its licensees the right to use the following simple form of license notice:

> This apparatus is licensed under the
> United States patent rights of
> HAZELTINE CORPORATION
> (or Hazeltine Research, Inc.)
> (Appendix II, pp. 78-80)

Also, the defense of alleged illegal license notice was not pleaded by Petitioner either in its Answer (R. 45) or in its Amended Answer (R. 71).

For all of these reasons, the issue of the legality of the license notice is not properly presented for decision by this Court and has become moot. A very similar situation was presented in the recent case of *Westinghouse Electric Corp.* v. *Bulldog Electric Products Co.*, (C. A. 4; 179 F. (2d) 139; 84 U. S. P. Q. 115). In that case, Westinghouse had a series of license agreements, including a cross-license agreement, which had price-fixing clauses. After the decision of this Court in *United States* v. *Line Material*, 333 U. S. 287, Westinghouse became apprehensive of these price-fixing provisions and sent a letter to each of its licensees waiving the price-fixing clause and withdrawing previously issued price schedules D, in the following terms (p. 118):

> "Westinghouse Electric Corporation hereby irrevocably waives the provisions of Article VI of said modified agreement for the full life of said modified agreement, insofar as such provisions are applicable to latching contact bar type circuit breaker devices, and hereby withdraws and cancels each and every schedule D submitted to you under said Article VI of said modified agreement."

In holding that the foregoing waiver cured any illegality which might have attached to the licenses because of the price-fixing clause, the Court of Appeals said (p. 119):

> "We need not decide, however, whether the price maintenance provisions of the multibreaker licenses are illegal, as we think it clear that any illegality that may have existed has been purged as a result of the action of Westinghouse in promptly surrendering all rights under these provisions following the decision in the *Line Material* case and abandoning all efforts at price control.
>
> "* * * It is argued that the unlawful conduct has not been abandoned because the letters sent out by

> Westinghouse constituted unilateral action on its part not joined in by its licensees; but no such joinder was necessary. The price maintenance provisions of the contract were for the protection and benefit of Westinghouse; and it is elementary that a party may waive a condition or stipulation made in his own favor. See *Ins. Co.* v. *Norton*, 96 U. S. 234. No one would contend that, if the price fixing provision were lawful, Westinghouse could have insisted upon compliance by the licensees after the sending out of the letter waiving it. Not only has it done everything that it could do to purge its licenses of the illegal provision, but there can be no question but that its action has had that effect."

In brief, this Court is not called upon to decide the question of the asserted illegality of the license notice since it was waived more than a year before the present controversy arose and since this waiver alone serves to nullify Petitioner's collateral defense to its obligation to pay royalties under the license agreement.

(c) *The license notice in question is an unessential provision.* Even if it be assumed, arguendo, that the license notice is unenforceable and even neglecting its waiver in September, 1945, still the license notice does not go to the essence of the license agreement and is a severable provision. The essential considerations of the license agreement are the grant of a license by Hazeltine and the payment of royalties by Petitioner. The requirement that Petitioner apply the license notice to its receivers is an unessential provision, the breach of which might subject Petitioner to any damages which Hazeltine sustained as a result of such breach, but one which would not afford either party justification for repudiation or cancellation of the agreement. This is corroborated by the fact that, in spite of the admission by Petitioner that it has breached this provision of the agreement by failing to apply license notices to its receivers (R. 177), Respondent has made no

claim on account of this breach and Judge FORD's Judgment (R. 293) did not require Petitioner to comply with this license notice provision.

Such an unessential contract provision, even if illegal or unenforceable, does not render the whole contract unenforceable. The rule is well stated in the American Law Institute Restatement of the Law of Contracts (1932 Edition, Section 603 (p. 1119)):

> "A bargain that is illegal only because of a promise or a provision for a condition, disregard of which will not defeat the primary purpose of the bargain, can be enforced with the omission of the illegal portion by a party to the bargain who is not guilty of serious moral turpitude unless this result is prohibited by statute. Recovery is more readily allowed where there has been part performance of the legal portion of the bargain." (The 1945 Ed. Glossary at p. 521 under Section 603 of "Contracts" cites *Forbes* v. *Forbes*, 159 Pa. Super. 243; *White* v. *E. C. McKallor Drug Co.*, 268 N. Y. Supp. 371; *United Radio, Inc.* v. *Cotton*, 22 N. E. (2d) 532.)

The New York Annotation states (p. 371) that

> "This Section seems in accord with the New York Law."

The License Agreement in question is a New York contract and is to be construed by New York law, as expressly recited in the agreement (R. 14) and as held by the Court below (R. 325).

The rule is stated similarly by Williston on Contracts (Rev. Edition 1937, Baker Voorhis & Co.) in Section 1659 (Vol. Five, p. 4679):

> "Contracts containing promises unlawful because of too extended restrictive effect have not been held so unlawful in their general purpose as to invalidate the whole transaction of which they were a part (Note 1

on that page cites Hall Manufacturing Co. v. Western Steel and Iron Works, 227 F. 588, L. R. A. 1916C 620); and the fact that a covenant in restraint of trade is more extended than the law allows will not preclude the enforcement of separable lawful restrictive promises. (Note 2 on that page cites Guth v. Minnesota M & M Co., 77 F. (2d) 385; Fox Film Corp. v. Ogden Theater Co., 17 P. (2d) 294 (Utah), 90 A. L. R. 1299; also on p. 4681 Note 13 cites Edgecomb v. Edmonston, 153 N. E. 99 (Mass.) as an example of the recent tendency to enforce the valid portion of an indivisible contract.)".

In Section 1629A (p. 4559), Williston states:

> "Thus the courts enforce the severable legal parts of an illegal divisible contract where the unlawfulness does not permeate the whole and even in the case of indivisible contracts they strive to segregate and uphold if possible such portions as may be legal. * * *"

After referring to the views of this Court as to a patent owner imposing a restriction on the buyer, Williston further states with respect to patent license notices (Section 1647, pp. 4630-1):

> "This can only mean, however, that the patent laws give no protection to restrictive promises exacted from a buyer and that they must stand or fall under the common law as if the article was unpatented. Probably this depends on whether such a contract or condition is part of a scheme to obtain a monopoly wider than that of the patented article. Certainly this result cannot be achieved by mere notices on patented articles." (Note 46 on P. 4631 cites Straus v. Victor Talking Mach. Co., 243 U. S. 490; 66 L. Ed. 866; Motion Picture Mfg. Co. v. Universal Film Mfg. Co., 243 U. S. 502; 61 L. Ed. 871; Carbice Corp. v. American Patents Dev. Corp., 283 U. S. 27; 75 L. Ed. 819; The 1943 Cumulative Supplement to Volume Five, Section 1647 at p. 87 cites General Talking Pictures Corp. v. Western Electric Co., 305 U. S. 124; 83 L. Ed. 81).

In brief, the license notice clause of the agreement in issue, even if illegal and unenforceable, which Respondent vigorously denies, does not thereby render the whole agreement unenforceable and relieve Petitioner of its obligation to pay royalties for the use of the Hazeltine patents, which it has admittedly enjoyed.

(1) Petitioner's Argument
(Petitioner's Brief, pp. 30-54).

In its challenge of the license notice in issue, Petitioner sets up a straw man, the more easily to knock it down. Its entire consideration on this point is limited to the effectiveness of such a license notice on an admittedly licensed device *after it has passed through the channels of commerce and into the hands of the purchasing public. But that question is not even before this Court* and, for that reason, none of the cases cited by Petitioner is relevant. This is not a suit by Hazeltine against a *purchaser* of licensed apparatus from Petitioner. The question presented here is solely whether, *as between licensor and licensee*, the requirement of a license notice specifying the licensed field is illegal *per se*, but that question is no longer open to dispute, such notice having been expressly found to be valid in the *General Talking Pictures* case, *supra*. The validity of such a license notice was not even questioned in the dissenting opinions of Mr. Justice Black. That decision has never been reversed or modified.

In its review of authorities considering the effectiveness of limitations in a license agreement against a purchaser in the ordinary channels of trade, Petitioner (pp. 31-45) considers several types of limitations which have been held ineffective against such purchasers of licensed apparatus; it also discusses a number of authorities which have held that license notices are ineffective to enforce

against such purchasers license limitations which are not otherwise enforceable in the absence of license notices. Thus Petitioner states that this Court in *Bauer* v. *O'Donnell*, 229 U. S. 1, brought

> "* * * its decision precisely in line with *the doctrine fundamental to all those cases, that once title to a patented article has passed to a purchaser*, and the right to vend thus exhausted with respect thereto, the article has passed 'beyond the limits of the monopoly secured by the patent act' * * *" (p. 40; (Emphasis added).

But those cases have no application here.* No purchaser of licensed apparatus is a party to this action and no rights of such a purchaser are here involved. Neither the case of *Motion Picture Patents* v. *Universal Film*, 243 U. S. 502 or *Carbice* v. *American Patents Development*, 283 U. S. 27, cited by Petitioner (pp. 43-44) has any application here, since neither of those cases involved the propriety of a license notice of any kind. Both of such cases involved a clause tying-in the sales of an unpatented commodity with licensed apparatus and are not relevant here.

Petitioner refers (p. 45) to the *General Talking Pictures* case, *supra*, and to two questions which Petitioner in that case formulated but which this Court found were not properly presented for decision because they involved

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* The Court may be interested to note that pages 31-45 of Petitioner's Brief are substantially a verbatim copy of pages 15-29 of the "Brief for Petitioner", in the *General Talking Pictures* case and of pages 11-26 of the "Brief for Petitioner on Rehearing" in the same case. Counsel for Petitioner in that case was a member of the firm Darby & Darby which is also counsel for Petitioner here. That argument failed to persuade this Court in that case that a license notice essentially identical to that involved here was illegal *per se*. It also failed to persuade this Court that a purchaser *with notice* that the apparatus is purchased from a licensee with a license notice affixed should not be held as an infringer. *A fortiori*, it must fail to persuade this Court that, *as between licensor and licensee*, such a license notice represents an illegal bargain.

rights of a "purchaser in the ordinary channels of trade."* Those questions are not properly presented here for the same reason. Petitioner refers (p. 46) to a vigorous dissent by Mr. Justice BLACK in that case but it conveniently omits to state that the dissent was on an issue not presented here, as appears from the dissenting opinion itself:

> "The area of the patent monopoly is expanded by the holding that the exclusive right granted an inventor to 'make, use and vend' his patented commercial device, permits the inventor's corporate assignee (and other 'patent pool' participants) to *control how, and where the device can be used by a purchaser who bought it in the open market.*
>
> "Petitioner bought amplifying tubes from the American Transformer Company, a licensee authorized to 'manufacture * * * and sell only for radio amateur reception, radio experimental reception and radio broadcast reception.' The devices are of a standard and uniform type generally useful in many 'fields'.
>
> *"We are not here concerned with the right of respondents under the contract with the licensee,* American Transformer Company. * * *" (Emphasis added; pp. 183, 184.)

Petitioner refers (pp. 47-50) to a number of decisions of this Court after the *General Talking Pictures* case and makes the astounding assertion with respect to them:

> "* * * we submit that the *General Talking Pictures* case has been overruled by subsequent decisions."

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* The two questions referred to read:

"1. Can the owner of a patent, by means thereof, restrict the use made of a device manufactured under the patent, after the device has passed into the hands of a purchaser in the ordinary channels of trade, and full consideration paid therefor?

"2. Can a patent owner, merely by a 'license notice' attached to a device made under the patent, and sold in the ordinary channels of trade, place an enforceable restriction on the purchaser thereof as to the use to which the purchaser may put the device?"

None of the cases referred to by Petitioner even *cites* the *General Talking Pictures* case. Is it possible that this Court has overruled one of its decisions as recent as the *General Talking Pictures* case without even referring to the decision overruled! Obviously not. The reason that none of the later cases cited by Petitioner refers to the *General Talking Pictures* case is clear—none of them involved the same issue, so that there was no occasion to refer to it. The *General Talking Pictures* case is the last word of this Court on the legality of a patent license notice informing of the scope of the license in question. None of the other cases cited by Petitioner is relevant.

Petitioner (pp. 51-54) launches into pure fantasy without a scintilla of record support, referring to receivers which are "probably" in use (p. 51); accepting "as a fact, proved conclusively and beyond question" its own absurd assumptions (p. 51); indulging in fantastic "ifs" (p. 52); and conjecturing as to facts that "we do not know" (p. 52). It appears unnecessary to refute each of these frivolous and malicious assertions and assumptions which Petitioner has conjured up in an effort to distract the Court's attention from the simple issues to be decided. Petitioner, in an effort to evade its obligations under its simple non-exclusive license while enjoying the use of Hazeltine's patented inventions, feigns an earnest solicitude for the public interest. Its actions were well described in *Charles Peckat, et al.* v. *Jacobs* (1949), 178 F. (2d) 794, cert. den. —— U. S. —— (p. 803):

> "• • • One who has exactly copied that which is patented, who so strongly asserts that he is acting to protect the public interest in attacking the claims of the patent, brings himself within the category mentioned in Hawkinson Co. v. Dennis, et al., 5 Cir., 166 F. 2d 61, 62. 'In short, the case as we have it is one in which the defendants, by the device of presenting themselves as defenders of the public interest, draw attention from the less savory role

assigned them by plaintiff as infringers pirating plaintiff's invention. This role of invoking the public interest, "that is, the interest of others than the parties," to enable the defendant to keep the fruits of his contract without standing to his bargain, became so familiar in ordinary contract cases that the courts have latterly been quite slow to follow such interested leading'."

(2) There is no requirement that license notices be applied to unpatented apparatus.

Petitioner emphasizes by repetition (pp. 46-47, 51, 53) its deliberate statement that the license agreement in suit *requires* that the license notice in question be applied not only to licensed apparatus *but also to unlicensed apparatus* not embodying any of the Hazeltine patented inventions. The Department of Justice Brief adopts this assertion as its own, repeating it over and over (pp. 5, 9, 31, 32). A large portion of the argument of both Petitioner and the Department involves this assertion as its premise. These tactics are strongly reminiscent of the first maxim of the propagandist—if an untruth is repeated often enough, it will be ultimately believed.

The license agreement is perfectly clear and unambiguous on this point. It expressly recites that the license notice in issue is to be applied to "*all licensed apparatus*" (Art. VI, Sec. 2, R. 14). Clearly apparatus not embodying any of Hazeltine's patented inventions is not "licensed apparatus". This is the only permissible interpretation in view of the distinction of Art. IV, Sec. 1 (R. 9), specifying that royalties are payable not with respect to "licensed apparatus" but with respect to each complete apparatus of the type identified in Art. III, Sec. 2.

(3) The Brief of the Department of Justice (Question IV, pp. 29-40).

The whole discussion of the Department of Justice on this point has become academic since, as previously stated (pp. 10-11), the license notice in question was completely waived in 1945 and has not been used by any Hazeltine licensee since that time. Nevertheless, for the sake of completeness, it will be shown that the position of the Department of Justice on this license notice is, in any event, untenable.

Again, the argument of the Department of Justice is based on a number of erroneous factual premises:

(a) It asserts that the agreement in suit *requires* the application of the license notice to *all apparatus* whether or not patented (p. 31), and that such a provision *per se* is contrary to statute (p. 32). It has been shown above (p. 49) that the agreement requires the use of the license notice *only on licensed apparatus*, that is, on apparatus embodying the licensed inventions.

(b) It repeats (p. 31) the assumption made in the previous section that *unpatented apparatus* is necessarily involved in the licensee's operations. It has been shown above (pp. 6-7) that this assumption is wholly unfounded.

(c) It reiterates the contention that this Court is called upon to determine the enforceability of the license notice *against a purchaser in the ordinary channels of trade* but that issue is not presented here, either by the pleadings or by the facts. We are concerned here only with the effect of such a license notice on the obligation of a licensee to pay royalties. No one claiming injury arising from the license notice in issue is a party to this action.

(d) It asserts (p. 37) that the license notice in question is for the benefit of the licensees and not of Hazeltine.

On the contrary, the license notice was adopted solely for the benefit of Hazeltine in the administration of its licenses in different fields (*supra*, p. 9).

The argument of the Department of Justice on this issue is heavily weighed with discussion of hypothetical possibilities rather than the realities of this case. Thus it asserts (p. 31) that the license notice "may become" the basis of illegal use, not that it has become so; that it involves "potential deception" not, an accomplished deception (p. 31); that the license notice might "intimidate the public," not that the Public has been intimidated (p. 39). This argument loses sight of the fact that there is here involved an actual controversy which is necessary to give the Court jurisdiction. The Department of Justice is asking this Court to give an advisory opinion—to determine the legality of a license agreement *in vacuo*, isolated from all realities.

At page 34, the Brief suggests that Automatic Radio:

> "* * * should be allowed to demonstrate any restraint upon competition which may flow from Hazeltine's system of licensing. * * *"

This suggestion neglects the fact that Automatic filed a Countermotion for Summary Judgment (R. 169) alleging that there were no facts in dispute and that it filed voluminous affidavits setting forth all the facts which it considered material. Petitioner does not now suggest the omission of any relevant facts. Therefore, there is no occasion to remand the case to the District Court for further proceedings on this point.

On this issue of license notice the Department of Justice Brief contains an extended discussion of the *General Talking Pictures* case (304 U. S. 175; 305 U. S. 124). It suggests that the instant case is distinguishable from the *General Talking Pictures* case. We agree, but for different

reasons. In the *General Talking Pictures* case, this Court went much further than the Court below was called upon to do in the instant case. In the former case, this Court gave effect to a license notice *against a purchaser with knowledge*. In the instant case, the Court below was not concerned with the effect of such a notice upon *any* purchaser, but only with its effect upon the obligation of the licensee to pay royalties. This is evident from the following statement of the Court (R. 318):

> "• • • There may be circumstances under which a notice of restricted use would be inoperative and unenforceable as against subsequent purchasers, *but that problem is not presented in the case at bar.* And it is to be noted that the judgment from which this appeal is taken does not even command Automatic, the licensee, to comply with the term of the agreement requiring it to attach the restrictive use notices to the licensed apparatus sold by it." (Emphasis added.)
>
> • • • • • • •
>
> "In fact, it appears that none of the radio apparatus made and sold by Automatic has been marked with the restrictive use notice required by Article VI; in other words, Automatic (Fol. 322) has consistently ignored this provision of the agreement. Automatic makes the curious suggestion that its own breach of this term of the contract affords an independent ground for relieving it of the obligation to pay the stipulated percentage royalties. • • •"

In its discussion of the *General Talking Pictures* case, the Department of Justice Brief discusses a series of cases decided both before and since that case, but it does not appear profitable to pursue them further. Clearly the prior cases will not prevail over the *General Talking Pictures* case and the later cases have not even referred to the *General Talking Pictures* case, much less have they purported to modify it.

In fact, the Department of Justice is urging this Court to "re-examine" (that is, to overrule) the *General Talking Pictures* case. This is but the latest skirmish in a persistent campaign of attrition against the patent system which the Department of Justice has waged for many years and by which it has sought not only to obtain a reversal or nullification of the decision of this Court in the *General Talking Pictures* case but also to put a straightjacket upon patent owners, particularly licensors, in other respects. A documented summary of that activity is given below in Appendix III (pp. 81-90).

In brief, at the instigation of the Department of Justice, a series of bills were introduced in Congress between 1939 and 1945 to give effect to certain recommendations which the Department of Justice made to Congress. In essence, these recommendations were:

(1) To prohibit the assignment or licensing of a patent by an agreement imposing any restrictions of any nature upon the assignee or licensee;

(2) To make it unlawful for a patentee grantee or licensee under such a license to dispose of any licensed article on any such restrictive conditions;

(3) To provide for the registration of all patent assignments and licenses with the Federal Trade Commission;

(4) To require that infringement suits with respect to licensed articles be brought initially against the grantor of the license;

(5) To provide for forfeiture of any patent used in violation of any of the preceding recommendations;

(6) To provide that all of the foregoing recommendations should be applicable to any renewal or modification of any existing contract.

Its specific recommendation with respect to licenses is interesting:

> "1. It should be made unlawful for any person to sell or assign a patent, or to grant any right or license under a patent, on any condition which restricts the assignee or grantee in respect of the amount of any article which he may produce under the patent, the price at which he may sell any such article, *the purpose for which or manner in which he may use the patent or any article produced thereunder*, or the geographical area within which he may produce or sell such article * * *" (Emphasis added).

Impartial public service officials and groups having a knowledge of the practical workings of the patent system uniformly opposed these recommendations of the Department. Congress consistently refused to pass enabling legislation, although four of the bills sponsored by the Department were directed specifically to recommendation (1) above.

Nevertheless, Congress has not been neglectful of *constructive* changes to the patent laws and during the same period amended no less than 17 sections of the Revised Statutes comprising the patent laws.

Thwarted in its attempt to enforce these unwanted patent restrictions on the public by direct legislative processes, it now seeks to achieve its objectives indirectly by judicial legislation. It is respectfully submitted that legislation should properly be left to Congress.

Stating conversely the essence of the quotation from *Scott Paper* v. *Marcalus*, 326 U. S. 249, 251, at page 40 of the Department Brief—within the appropriate exercise of the legislative power, the interest in private good faith is a universal touchstone. In this case there has been a marked lack of "private good faith" on the part of Petitioner, which should not be condoned.

It is submitted that a party to private litigation who has scrupulously followed the law of the land as interpreted by the latest judicial decisions should not be penal-

ized in favor of one who has consistently violated its contractual obligations over and over in order to put into effect legislative proposals of the Department of Justice which Congress has repeatedly rejected.

* * * * *

On sound legal principles and on the authorities, the holding of the Court below that the license notice in issue does not relieve the licensee of its obligation to pay royalties is in accord with the decision of this Court in the *General Talking Pictures* case and is not in conflict with the decisions of the Courts of Appeals of other circuits; Congress has specifically refused to enact legislation, at the instance of the Department of Justice, which would nullify the decision of this Court in that case; the enforceability of the license notice has become moot by its general waiver; by its deliberate breach of the license notice provision Petitioner is not in a position to attack its legality; and in any event, the license notice is an unessential separable provision which, even if unenforceable, does not affect the enforceability of the license agreement as a whole. The holding of the Court below should be affirmed on this point.

E. A licensee under a simple, non-exclusive patent license agreement containing no provisions which, save for the existence of a valid patent, would run afoul of the anti-trust laws, cannot challenge the validity of the licensed patents (Question 5).

While it is irrelevant whether Petitioner can contest the validity of the licensed patents, since its contractual obligation is independent of the validity of any of the licensed patents, as a matter of law, Petitioner as licensee is estopped from contesting validity. This is one of the oldest doctrines of the patent law and, with certain exceptions not relevant here, has been universally accepted.

Ninety years ago this Court unanimously announced the doctrine that a licensee under a patent is estopped from challenging the validity of that patent. *Kinsman* v. *Parkhurst*, 18 How. 289. The rule expressed in that case has become so much part of our law that fifty years later this Court deemed it unnecessary to discuss it and unanimously applied it even against the United States as licensee. *United States* v. *Harvey Steel Co.*, 196 U. S. 310. This Court has never questioned the rule. The principle has withstood judicial scrutiny for nearly a century.

The Court below pointed out a common-sense basis for the Rule, particularly applicable here, saying (R. 323-324):

> "• • • It is not uncommon for the parties to a patent infringement suit, in which there is a genuine issue as to the validity of the patent, to make a settlement of the litigation by an agreement under which the patentee gives a license to the alleged infringer in consideration of the payment of a stipulated royalty. Indeed, the license agreement in suit seems to have been by way of settlement of earlier litigation between the parties. It is not apparent to us that the public interest would be served by rendering such common-sense business settlements nugatory, which would be the result of a ruling that the licensee could reopen the issue of validity when sued for the stipulated royalty."

(1) Petitioner's Argument
(Petitioner's Brief, pp. 55-59)

Petitioner cites (p. 55) *Sola* v. *Jefferson*, 317 U. S. 173; *Katzinger* v. *Chicago Metallic*, 329 U. S. 208; and *MacGregor* v. *Westinghouse*, 329 U. S. 402, for the proposition that:

> "• • • a licensee may challenge patent validity when the patent license agreement would be illegal but for valid patents • • •."

The decisions do not support this broad conclusion. Each of these three cases involved a license agreement having *price-fixing* provisions. The decisions themselves make clear that they are limited to license contracts having *inseparable, intrinsic restrictions* such as price-fixing which, but for the validity of the licensed patents, would *per se* render the contract illegal under the anti-trust laws.

Mr. Justice BLACK, in writing the opinion in the *MacGregor* case, is careful to point out this distinction at the very beginning:

> "This case, like that of Edward Katzinger Co. v. Chicago Metallic Mfg. Co., Nos. 70, 71, this day decided, involves the right of a patent licensee to defend a suit for royalties *only* under a licensing agreement which contains a price-fixing provision. * * *" (pp. 403, 404; Emphasis added.)

In the instant case the license contract contains no price-fixing provisions nor any restrictive clauses which, but for the existence of valid patents, would cause the contract to run afoul of the anti-trust laws.

Similarly, Petitioner cites the case of *Pope* v. *Gormully* (144 U. S. 224), but that case is not in point. In that case the parties entered into a license agreement relating to bicycles and including licenses under some 65 patents owned by plaintiff. The license included *inter alia* the following restrictive provisions: (1) (Par. 6) an agreement by defendant to sell only at retail and at prices approved by plaintiff and to sell only through agents in Chicago; (2) (Par. 8) an admission by defendant of validity of all patents and of plaintiff's title thereto and admission of use of specific inventions in defendant's bicycles; (3) (Par. 9) an agreement by defendant to make only specified types and sizes of bicycles; (4) (Par. 11) the right of defendant to surrender the license, providing that such surrender should not release it from the above specified obligations, which were stated to be irrevocable.

Plaintiff brought a bill in equity for an accounting and for specific performance of the agreement by defendant alleging that defendant was manufacturing and selling bicycles of the prohibited types. The Court below held that defendant was violating the contract but that the contract was not of such a nature as to entitle plaintiff to specific performance. This Court affirmed, stating the facts and its conclusions as follows:

> "*This case involves the question whether a court of equity can be called upon to decree the specific performance of a contract,* wherein the defendant, in consideration of receiving a license to use certain patents belonging to the plaintiff during the life of such patents, agrees never to import, manufacture or sell any machines or devices covered by certain other patents, unless permitted in writing so to do, nor to dispute or contest the validity of such patents or plaintiff's title thereto, and further to aid and morally assist the plaintiff in maintaining public respect for and preventing infringements upon the same; and further agrees that if, after the termination of his license, he shall continue to make, sell or use any machine or part thereof containing such patented inventions the plaintiff shall have the right to treat him as an infringer, and to sue out an injunction against him without notice (p. 232).
>
> • • • • • •
>
> "Ordinarily the law leaves to parties the right to make such contracts as they please, demanding, however, that they shall not require either party to do an illegal thing, and that they shall not be against public policy or in restraint of trade • • • (p. 233).
>
> "• • • It is impossible to define with accuracy what is meant by that public policy for an interference and violation of which a contract may be declared invalid • • • (p. 233).
>
> "• • • *The exigencies of this case do not require us to decide the question whether a man may or*

> *may not contract beforehand not to set up a certain defense to a particular action;* but we are of the opinion that a contract not to set up any defense whatever to any suit that may be begun upon fifty different causes of action is in violation of public policy. • • • (p. 236).
>
> *"But whether this contract be absolutely void as contravening public policy or not, we are clearly of the opinion that it does not belong to that class of contracts, the specific performance of which a court of equity can be called upon to enforce. To stay the arm of a court of equity from enforcing a contract it is by no means necessary to prove that it is invalid;* • • •" (p. 236; Emphasis added).

The argument has previously been urged, and rejected, that *Pope* v. *Gormully et al.* was authority for the proposition that a licensee under a group of patents is not estopped to contest the validity of the patents. Thus in *Philadelphia Creamery Supply Co.* v. *Davis and Rankin* (N. D. Ill. 1896), 77 F. 879, the Court said:

> "• • • Pope Manuf'g Co. v. Gormully & Jeffery Co., 144 U. S. 224, 12 Sup. Ct. 632, was not such a case as is here presented. The attempt there was to specifically enforce a contract in itself unreasonable, and tainted with the suspicion that it had not been fairly obtained. The court expressly declines to determine whether a man may or may not contract beforehand not to set up a defense against the validity of a patent. • • •"

At this point, Petitioner repeatedly makes derogatory references to Hazeltine's "pool" of patents. These references are unwarranted as previously pointed out. Hazeltine *has not created any pool* of patents. The patents in question are almost wholly the result of its own extensive research and development over a period of more than 20 years, activity which was directed to promoting the progress of the radio and television arts.

(2) The Department of Justice Brief (Question I, pp. 9-18).

The gravamen of the Brief's argument under this Point is that licensee is not estopped to contest validity because of the presence in the license of provisions which would constitute unlawful restraint on trade *in the absence of valid patents.* There are two difficulties in this argument: *Firstly,* it *assumes* that the royalty payment and license notice provisions of the license *sub judice* would, in the absence of valid patents, constitute an unlawful restraint on trade. It has been shown (*supra,* pp. 15-22; 37-45) that this assumption is erroneous and the argument fails for that reason.

Secondly, its assumption apparently *concedes* the complete legality of the royalty payment and license notice provisions if the licensed patents are valid, but this concession flatly contradicts its contentions under its Questions II and IV (pp. 19-25 and 29-40) in which it is urged that the royalty payment and license notice provisions represent *absolute* unlawful extensions of the monopoly *without regard to the existence of valid licensed patents.* Clearly, if the legality of the license contract is to be determined *without regard to the validity* of the licensed patents, there is no occasion to make an exception to the time-honored rule of estoppel to contest validity and permit a determination of validity. Therefore, the question of licensee's estoppel to contest validity is a separable issue which must be independently determined, as in the case of any simple, non-exclusive license agreement. Respondent has shown (*supra,* pp. 55-56) that in such case the licensee *is* estopped to contest the validity of the licensed patents. The Solicitor General has cited no decisions to the contrary.

The Brief cites (p. 10) the decision in *Nachman Spring-Filled Corporation* v. *Kay Mfg. Co.* (C. A. 2, 1943),

139 F. (2d) 781, as being in conflict with the decision of the Court below. In that case, plaintiff, in prior litigation with defendant, had obtained a judgment under other patents not involved in the instant case. In consideration for a release for damages under that judgment, defendant entered into an agreement with plaintiff in which (p. 782) it:

> "• • • acknowledged the validity of the patent involved in the present suit; agreed 'not to manufacture or sell' any devices which would infringe that patent; and further agreed to 'discontinue the manufacture and sale of devices embodying the invention' of the patent now in suit 'throughout the balance of the unexpired term thereof,' which was then approximately thirteen years. • • •"

The action was based on the charge of patent infringement and breach of contract by defendant. Defendant contested the validity of the patent but plaintiff contended that it was estopped to do so under the contract provision quoted above.

The Court of Appeals, in extending the rule of *Sola Electric Co.* v. *Jefferson Electric Co.* (317 U. S. 173), to the facts of the case, *because of the restraint on competition* involved in the agreement not to manufacture devices covered by a patent under which it was not, and never had been, licensed, said (p. 784):

> "• • • As that Act (the Sherman Act) renders unlawful not merely price-fixing agreements but all agreements which, in any way, *unreasonably restrain competition* in interstate commerce, the conclusion is inescapable that the Sola case doctrine applies to any such agreement. • • •" (Emphasis added.)

In the present case it is a fact that Hazeltine imposes on none of its licensees any restraint whatsoever in their competition with each other or with Hazeltine. The *Nachman Spring-Filled Corp.* case is, therefore, inapplicable

The Brief also cites (p. 10) the case of *United States* v. *U. S. Gypsum Co.* (*supra*), in support of its contention, but the very portion of the decision quoted refers to "an anti-trust suit instituted by a licensee against his licensor" which points up its inapplicability here. Petitioner has asserted here no claim on account of alleged violation of the anti-trust Laws.

However, the Department of Justice devotes the greater portion of this section of its Brief to a reargument of its propositions that the royalty provision and the license notice provision of the license agreement in suit are illegal. These contentions have been fully met in preceding sections of this Brief and need not be reargued here. Suffice it to say once again, no licensee of Hazeltine is contractually prevented, either expressly or impliedly, from competing against any one it chooses in any field it chooses (Department Brief, p. 12). Further, there is no attempt by Hazeltine to exert any control of any kind on articles in the hands of any purchasers from licensee (Department Brief, p. 13).

The Department of Justice suggests (pp. 14-18) that the rule that a licensee under a simple non-exclusive license is estopped to contest validity should be "re-examined and rejected". This suggestion of the Department is legally and economically unsound and must be rejected. From the legal viewpoint, the doctrine has gone unquestioned for nearly a hundred years. In the case of *MacGregor* v. *Westinghouse* (1947), 329 U. S. 402, a dissenting opinion by Mr. Justice FRANKFURTER included a restatement of the estoppel of a licensee to contest validity (a portion of the dissent which was not, however, in conflict with the majority opinion) which is a model of clarity and conciseness (pp. 408-409):

> "The Court deems the issues in these cases to be controlled by our decision in Sola Electric Co. v. Jefferson Co., 317 U. S. 173. Such is not my under-

standing of the Sola decision. These cases cannot be properly decided, I believe, without consideration of one of the oldest doctrines of the patent law, namely, that a licensee cannot challenge the validity of the patent though everyone else may.

"Ninety years ago this Court unanimously announced the doctrine that a licensee under a patent is estopped from challenging the validity of that patent. Kinsman v. Parkhurst, 18 How. 289. The case may perhaps be explained, or even explained away. But the rule it expressed had become so much part of our law that fifty years later the Court deemed it unnecessary to discuss it and unanimously applied it even against the United States as licensee. United States v. Harvey Steel Co., 196 U. S. 310. It is significant that the licensee in that case, while vigorously contesting its liability upon the particular facts, conceded that the doctrine of estoppel was law 'as a general proposition.'

"Before those cases and since, in all English-speaking jurisdictions, in the courts of England, of the Dominions and of the various States, as well as in the lower federal courts, where most patent litigation originates and stops, a weighty body of cases affirmed and applied that doctrine with rare unanimity.[1] This Court has never questioned the rule.[2] The principle has withstood judicial scrutiny for nearly a century."

The whole nerve system of the patent structure and the fabric of myriads of commercial patent licenses would be shattered by adopting the suggestions of the Department. It would necessarily be retroactive in its effect.

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[1] The early cases are collected in 14 Ann. Cas. 1184. Note also the unanimity among the authors of treatises. Amdur, Patent Law and Practice 598; Ellis, Patent Assignments and Licenses Sec. 692 *et seq.*; 2 Frost, Patent Law and Practice 201; Moulton, Patents 244; Rivise and Caesar, Patentability and Validity Sec. 10; 2 Robinson, Patents Sec. 820; 2 Walker, Patents (Deller's ed.) Sec. 383. And see the cases cited, especially in Walker, Patents, *supra*.

[2] *Cf. Eureka Company* v. *Bailey Company*, 11 Wall. 488, 492; *Eclipse Bicycle Company* v. *Farrow*, 199 U. S. 581, 587.

Litigation would be enormously multipled, as the many concerns always ready to reap where they have not sown would use such a ruling as a pretext to avoid the payment of royalties, regardless of the merits or the contribution to the progress of the arts represented by the licensed patents, and would take advantage of the progressive but unrealistic raising of the standards of invention by the Courts.

A simple, non-exclusive license has been described by this Court as merely an immunity from suit. Thus in the case of *Henry* v. *A. B. Dick*, 224 U. S. 1, this Court said (p. 24):*

> "* * * As a license passes no interest in the monopoly, it has been described as a mere waiver of the right to sue by the patentee. * * *"

It has also been held that a licensee under such a license has received his consideration by obtaining freedom from suit and that that consideration supports his obligation to pay royalties, even though the licensed patents should all be held invalid. Thus, in the case of *Lathrop v. Rice, et al.*, (W. D. N. Y., 1936); 17 F. Supp. 622, the parties had been involved in prior infringement litigation in which defendant made a settlement payment and took a license. A decree was entered finding the patents valid and infringed with respect to specified claims of a large number of patents. Defendant paid royalties for a period and then refused to make further payments. When sued for royalties, defendant alleged that it was not using any of the licensed inventions and counterclaimed to recover royalties paid. The Court entered judgment for plaintiff, saying:

* The *Henry* v. *A. B. Dick* case was reversed on other grounds in *Motion Picture Patents* v. *Universal Film* (243 U. S. 502) but the quoted definition of a license was subsequently quoted with approval by Mr. Chief Justice TAFT in an unanimous opinion in *De Forest* v. *United States* (273 U. S. 236, 242).

"• • • If any of those claims (involved in the decree) are involved in the present action, the defendant will not be permitted either to show invalidity or that it is not infringing as to any features of its present machines or dairy equipment that were in its machines at the time the contract was entered into. Kessler v. Eldred, 206 U. S. 285, 27 S. Ct. 611, 51 L. Ed. 1065.

• • • • • •

"• • • It is too much to ask us to believe that defendant paid the royalties to plaintiffs under any misapprehension as to the nature and scope of plaintiffs' patents or under any honest mistake as to infringement thereof. It would hardly have paid the price it did for peace if it had no legal liability. To decide on the question of legal liability for infringement, it had the advantage of the advice of eminent counsel, • • • Even though the patents were entirely invalid, there was adequate continuing consideration to sustain the agreement and to compel defendant to pay royalties until an unequivocal notice of repudiation was given to the licensor. Universal Rim Co. v. Scott, supra; Humphrey v. Sea Gull Specialty Co., 242 F. 271; Skinner v. Walter A. Wood M. & R. M. Co., 140 N. Y. 217, 35 N. E. 491, 37 Am. St. Rep. 540; Martin v. New Trinidad Lake Asphalt Co., 255 F. 93. • • •"

Thus in the case of simple non-exclusive licenses such as that in suit, the right to contest validity becomes academic. The licensee is obligated to pay royalties irrespective of the validity of the patents and the estoppel rule is a common sense one, since an attack upon the validity of the patents by the licensee would be a futility.

The Department of Justice refers to the public interest in invalidating "worthless patents" (pp. 15, 16), slyly insinuating without any justification that the Hazeltine patents fall in that category. All of the Hazeltine license agreements have been either for five-year or ten-year periods, at the option of the licensee. Obviously any radio

manufacturer who considered the patents "worthless" would not accept such a license agreement in the first instance. A number of manufacturers have refused to operate under license from Hazeltine. Any licensee has always been at liberty to discontinue the license relationship at the end of any period. A few companies have not renewed prior licenses, yet a great many Hazeltine licensees have taken successive new licenses extending over continuous periods of more than twenty years. It is clear that they would not have done so unless convinced that the use of the Hazeltine inventions justified the royalty payments.

Finally the Department of Justice's suggestion of repeal of the general doctrine of estoppel is unconvincing, since none of the Governmental bodies which has recently reviewed all phases of the patent system with a view to their improvement has found a need for any such drastic action (See Appendix III, pp. 81-90). The Department of Justice has demonstrated no such need at this time.

* * * * * * * *

The decision of the Court below on the estoppel of a licensee under a simple, non-exclusive license to contest the validity of the licensed patents is in accord with the decisions of this Court and is not in conflict with the decisions of the Courts of Appeals of other circuits.

F. No monopolistic practices are herein involved *(Department of Justice Brief, pp. 26-29, Question III).*

The Department of Justice is attempting to *create* a controversy where none previously existed and suggests that the case be remanded to the Trial Court for the introduction of further evidence on its inspired controversy, implying that somehow Petitioner has been thwarted in

its efforts to establish this point. The argument is hollow and unconvincing. Petitioner's Answer, as amended (R. 45, 71), follows the usual shotgun pattern, including general allegations of all types of misuse known to the skilled patent practitioner, in order to afford a basis for any evidence which it might hope to develop later.

However, Petitioner was in no sense deprived of its day in Court. It filed a Countermotion for Summary Judgment (R. 169) agreeing with Respondent that no genuine issue of fact was presented. Petitioner filed voluminous Affidavits in opposition to Respondent's Motion for Summary Judgment and in support of its Countermotion, including Affidavits of its President (R. 72-74; 197-201); of its counsel (R. 172-197; 202-204; 281-289); of its Chief Engineer (R. 277-279) and of its patent expert (R. 207-246). *Petitioner* has never suggested that it has been foreclosed from adducing all available evidence, by Affidavit or otherwise, relevant to any of its defenses. Certainly the Department of Justice cannot be more familiar with any of the vaguely alleged monopolistic practices of Hazeltine than is Petitioner, who has operated under Hazeltine license for some fifteen years and who made the initial allegation. As a matter of fact, Petitioner's allegation of monopolistic practices is based solely on the erroneous legal conclusions which it has drawn from the license agreement itself. There are no relevant extraneous facts and an order remanding the case to the Trial Court would be a futile gesture, the only result of which would be an indefinite postponement of the final conclusion of this litigation, now pending approximately three years.

The improbabilities of this defense of alleged monopoly are confirmed by Petitioner's own lack of faith in it. Petitioner did not rely upon this defense in either its Main

Brief or its Reply Brief before the Court of Appeals.* It did not include this defense among its Questions Presented in its Petition in this Court (pp. 3-4); it has made no reference to any monopolistic practices of Hazeltine either in its Brief in Support of its Petition or in its Main Brief on argument. Petitioner has been afforded every opportunity to support this contention with evidence but has not done so, simply because there is no substance to it.

But, in any event, the defense of alleged monopolistic practices is not before this Court for decision under the express terms of Rule 38(2) which unequivocally provides:

> "• • • Only the questions specifically brought forward by the petition for writ of certiorari will be considered. • • •"

This Court has uniformly adhered to this rule. Thus, in the *General Talking Pictures* case, Petitioner argued in its Brief and urged this Court to decide issues not included

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* The following is an excerpt from pages 8-9 of Petitioner's Brief on Appeal:

Statement of the Points Intended to be Relied Upon.

1. Hazeltine has misused its patents by requiring its licensees to apply a restrictive use notice to the sets sold by them in the ordinary course of business. Its patents may not be enforced for that reason. Therefore the present judgment enforcing them should be set aside.

2. Hazeltine has misused its patents by organizing a pool of patents under which it collects royalties on unpatented radio sets. The judgment enforcing its patents should be set aside for that reason.

3. Automatic Radio has been evicted from its license by the adjudications holding all of Hazeltine's best patents invalid, or not infringed, or both, rendering the license unenforceable for failure of consideration and for eviction.

4. Hazeltine has no valid patents which have been used in any sets made by Automatic Radio. Automatic Radio may challenge the scope and validity of Hazeltine's patents in this action.

5. Automatic Radio has sold no radio sets licensed by Hazeltine. It has applied no Hazeltine patent markings and the license expressly provides, at Article 6, Section 2 (R. 14), that:

> "apparatus not bearing such markings is not licensed."

Automatic Radio is therefore under no duty to account for its sets.

6. Automatic Radio has repudiated its license, and it may not be enforced for that reason.

in its formulation of the questions presented. This Court declined to do so saying (pp. 177, 178):

> "Our consideration of the case will be limited to the questions specifically brought forward by the petition. Rule 38, paragraph 2 • • •"

The defense of alleged monopolistic practices on the part of Hazeltine is insubstantial and unsubstantiated and in any event is not properly before this Court for decision.

C. Conclusion.

Accordingly, it is submitted that the decisions of the Courts below must be affirmed for the following reasons:

(1) The license agreement in dispute is a simple, non-exclusive patent license including no provisions which in any way tend to restrain trade or extend the lawful scope of the licensed patents.

(2) Respondent has not misused its patents in any way.

(3) Petitioner is admittedly using a large number of Respondent's patented inventions under which it is licensed.

(4) Petitioner is estopped from contesting the validity of the licensed patents.

Respectfully submitted,

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[APPENDICES FOLLOW]

APPENDIX I

Portions of Petitioner's Brief Including Erroneous, Misleading or Distorting Assertions of Fact With Comment

	COMMENT
Page 2, Para. 4: Hazeltine's affidavits in support of its motion for summary judgment asserted that four of its patents were used by Automatic Radio (R. 119-168). This was disputed (R. 199-200; 207-246; 277-282; 289-292).	Hazeltine has asserted (R. 50-70) that Petitioner is using *ten* (not four) of Hazeltine's patented inventions. This use is *not disputed*, as Petitioner asserts, except in the safe harbor of its Briefs. The record references do not contain a single allegation that Petitioner is not using any of the ten Hazeltine patents.
Page 3, Para. 5: Hazeltine attempts to restrict the use to which radio receivers may be put, after purchase from its licensees by the public through re ail stores, by requiring a restrictive use notice to be placed on every set (R. 10; Art. VI, Sec. 2).	Hazeltine has never attempted any such restriction and the record reference does not support the assertion. Licenses are readily available to *all* under *all* Hazeltine patents with respect to *all* classes of apparatus. The license notice in question merely serves to inform the public of the limit of the license under which a particular manufacturer made a particular article.
Page 4, Para. 8: Before and since 1927 Hazeltine acquired patent rights from other companies and individuals, forming a vast pool of radio patents owned by it or under which it has licensing rights, which now include some 570 patents and 200 patent applications (R. 79). Most of these are listed at R. 93-101	There is no "pool" of patents. As of the filing of the Complaint, the great majority of the patents under which Hazeltine had the right to grant licenses were patents which it owned outright and which resulted almost entirely from its own research during a period of more than twenty years (R. 80). The remaining patents

with the names of the owners in most cases.

Page 4, Para. 10: Hazeltine has, however, spent only a very small percentage of the money it has received as royalties for research on radio receivers (R. 173(h); 248), with the result that none of its patents has any value. Every patent on which it has sued since the Neutrodyne patents has been held invalid or not infringed or both (R. 179) • • •.

Page 6, Para. 11: Hazeltine has kept its licensees in line by a succession of suits against non-licensees and their dealers (R. 188-189). It actually sued 26 Atwater-Kent dealers simultaneously (34 F. (2d) 50). Despite these suits so large companies, who could afford to defend suits of this magnitude, have refused to take a Hazeltine license or pay tribute to Hazeltine for many years, going back to 1927 (R. 79; R. 178; R. 249-251).

COMMENT

comprised those under which Hazeltine acquired its rights as partial consideration for the settlement of past infringement liability (R. 255). These patent rights were acquired more than 15 years ago and did not include future inventions; as a consequence, most of the patents in question have expired. There is not now and never has been any plurality of control over, or interest in, the licensing program by which Hazeltine makes its patents available to all manufacturers.

These assertions are based entirely on the incompetent hearsay affidavit of Petitioner's counsel, Mr. Woodworth. The first assertion is also wholly untrue while the second assertion is largely untrue and misleading (R. 254).

These assertions are irrelevant, largely untrue and based only on the incompetent hearsay affidavit of Petitioner's counsel, Mr. Woodworth, which is made up almost entirely of rumor and gossip.

	Comment
Page 6, Para. 12: The 10 worthless post-Neutrodyne patents listed in No. 4 are admittedly the best patents Hazeltine owns. It has been able to continue to levy tribute from the radio industry without a single valid patent to warrant royalty payments, only because on each trial Hazeltine has spent more than $100,000, thus keeping each licensee in perpetual fear of a suit of this magnitude directed against it, if it failed to renew its license.	This assertion is irrelevant, untrue and based solely upon a distortion of the incompetent hearsay affidavit of Petitioner's counsel, Mr. Woodworth.
Page 7, Para. 14: Because of the admitted pathetic weakness of its patent position Hazeltine, by its own assertions (Binns, Hazeltine's president, R. 81, (f), in 1937 abandoned any attempt to collect royalties for the use of its patents. Instead, it has provided in its "standard" license contracts since 1937 for the payment of royalties on all sets made by its licensees regardless of patents. (Judge Ford's opinion, R. 299); Hazeltine's motion for summary judgment, R. 76, paragraph (b); license agreement, R. 5, Article IV, Section 1; Binns, R. 81-82(f); Opinion of Court below, R. 319-320). The royalties demanded in this action on Hazeltine's worthless patents amount to 25% of Automatic Radio's net profits for the years 1946 and 1947 (R. 178).	The change of policy noted was unrelated to the strength or weakness of the Hazeltine patent situation but was solely for the accounting convenience of Hazeltine *and* its licensees and to formalize an existing practice (R. 82). At that time (1937) Petitioner was using *27* of Hazeltine's patented inventions in its licensed radio receivers (Exh. P, R. 103-108). The relation between the royalties in controversy and Petitioner's net profits merely reflects upon Petitioner's business ability, which is outside Respondent's responsibility.
Page 7, Para. 16: The previous differences also involved the pay-	The malicious characterization of Hazeltine patents as "worth-

ment of royalties on Hazeltine's worthless patents.

COMMENT

less" (repeated at Page 6, Para. 12, Page 7, Para. 14 and Page 58, second paragraph) is typical of Petitioner's distortion of the facts. One important Hazeltine patent Re. 19,744 was held valid and infringed in *Detrola* v. *Hazeltine* (117 F. (2d) 238) by the Court of Appeals for the Sixth Circuit, affirming the judgment of the District Court. A patent unanimously upheld by four federal judges can scarcely be called "worthless" even though this Court later reached an opposite conclusion (313 U. S. 259). Another important Hazeltine patent 2,208,374 was held valid and infringed in *Hazeltine* v. *Admiral*, 87 F. Supp. 72, in which defendant was represented by Petitioner's counsel.

Page 8, Para. 17: In support of its motion for summary judgment, Wheeler's affidavit asserted the use by Automatic Radio of only four of its patents, namely, Wheeler patents Nos. 1,951,685; 2,041,273; 1,958,627, and 2,015,327 (Wheeler, R. 119-168). This is denied by Automatic Radio (R. 195, No. 12, 207-246). The first two have since been invalidated in the *General Motors* case, 72 F. Supp. 138, affirmed at 170 F.(2d) 6; second petition for rehearing denied, 171 F.(2d) 680; certiorari denied 336 U. S. 938.

Hazeltine asserts and has pointed out in detail the use of *ten* (not four) of its patented inventions in Petitioner's radio receivers (R. 50-70). This *use is not denied* by Petitioner, except in its Briefs. The references to the Record do not support the assertion. An infringement action on patents 1,951,685 and 2,041,273 is now pending against *General Electric Company* in the Northern District of Illinois, Eastern Division, Civil Action No. 49C645.

Page 23, lines 20-27: Apt words for what Hazeltine has done! By

There is no patent pool here involved (see comment to page 4,

agreement and purchase it has pooled 770 patents and applications for patent, of at least five different owners, all in the single field of radio, and has entered into 130 license agreements. And with not a single valid patent to justify *any* royalties, it now illegally compels its licensees to pay royalties on unpatented radio sets, and, as shown below, compels the public to buy additional, unwanted sets, to increase its tribute.

Page 23, line 28 to Page 24, line 5: Despite its multitude of patents, Hazeltine makes no attempt to seek a return based upon use of these patents. Rather, it exacts a tribute upon the entire production of its licensees, both patented and unpatented. It *ignores* the use of its patents, so long as it can collect royalties from its licensees, regardless of these patents. Its patents are used as an economic weapon, a threat, for the exaction of tribute, by its scheme of private taxation of the radio industry.

We submit that the collection of royalties under a vast pool of patents for the manufacture and sale of articles using none of the patents, by means of the overpowering threat of disastrous litigation, is a clear misuse of patents which prevents their enforcement.

COMMENT

paragraph 8, *supra*). At least one important patent now in wide commercial use stands adjudicated as valid and infringed (87 F. Supp. 72) in spite of the best efforts of Petitioner's counsel to invalidate it. There is no evidence that anyone has ever paid any royalties on unpatented radio receivers. All of Petitioner's radio receivers have made extensive use of Hazeltine's inventions (*supra*, pp. 6-7). No member of the public has ever been compelled to purchase any unwanted receivers.

There is not a scintilla of competent evidence in support of these reckless assertions and they are untrue. All of Hazeltine's licensees, *including Petitioner*, make extensive use of Hazeltine patented inventions (*supra*, pp. 6-7). There is no evidence that Hazeltine has ever used its patents as an "overpowering threat of disastrous litigation" or in any threatening manner and this is not a fact. Did Hazeltine, a small company, "overpower" Radio Corporation of America, Sears-Roebuck, Crosley, General Motors or Emerson, to mention but a few of the defendants listed by Petitioner (pp. 4-5)? One is reminded of the charge that tiny Finland threatened Russia.

	COMMENT
Page 51, lines 19-23: Millions of electric phonographs are in use. Three million television sets were in use by the end of 1949. The large majority of these sets bear a license notice purporting to restrict the uses to which they may be put.	There is no evidence as to the extent of use of the license notices in issue. Hazeltine has not required them since 1945 (*supra*, pp. 10-11).
Page 51, line 24 to Page 52, line 15: One proposition is not open to argument. That is, that Hazeltine would not have had its licensees place such restrictive notice on one hundred million sets unless it was a profitable thing to do. We therefore accept it as a fact, proved conclusively and beyond question, that the use of these notices has resulted in the sale of unnecessary and unwanted sets. If one wants to give a concert of his favorite records at his Church or Lodge or to operate a phonograph or a radio or television set in his restaurant he must, if these notices are legal, go out and buy an extra "commercial" phonograph or an extra "commercial" radio or an extra "commercial" television set for these purposes. Of course Hazeltine collects further royalty on these "commercial" devices, under its "commercial" license.	There is no evidence to support any of these accusations and they are all untrue. No Hazeltine license notice of the type in issue has been used since 1945; the use of such a license notice prior to World War II had no relation to profit, but was only an administrative aid (*supra*, p. 9). There is no evidence that the license notice in issue ever resulted in the sale of a single additional or unwanted radio receiver and, in fact, it has not.
How many thousands or millions of unneeded and unwanted sets have been bought we do not know, but we do know that the public has for twenty years been effectively and illegally re-	

strained from the lawful use of the apparatus it has bought and paid for.

Page 52, lines 16-29: If one hundred million radios have been sold by Hazeltine's licensees to date, and if each marking notice plate cost one cent, both of which are reasonable estimates, then it has cost Hazeltine's licensees $1,000,000.00 so far just to place these restrictive license notices on the sets sold. This expense would not have been incurred and required by Hazeltine unless it resulted in a profit through the sale of unwanted and unneeded sets.

The millions of dollars which the public has thus illegally been forced to pay for the use of apparatus which had passed beyond the limits of a patent monopoly is, we submit, conclusive proof that such restrictive notices are illegal and unenforceable, and that their use constitutes a misuse of patents.

Both assumptions are false. It is customary for licensees to add any required license notice to its regular name plate or label, involving no additional cost. The figure 100 million receivers sold under Hazeltine license is fantastic and without record support. No Hazeltine license notice has ever resulted in the sale of a single additional or unwanted receiver. The public has not paid a single dollar under the circumstances alleged. All of this reckless discussion about license notices is unrealistic and utterly without record support.

APPENDIX II

Affidavit of John R. Binns

State of New York,
County of Queens, } ss.:

JOHN R. BINNS, being duly sworn, deposes and says:

That he is President of Respondent and is the John R. Binns who on or about October 27, 1947, executed a certain Affidavit in support of Respondent's Motion for Summary Judgment in the above-entitled cause;

That in September, 1945, Respondent waived, as to all of its licensees, the license notice provision attacked by Petitioner, under the following circumstances:

For many years and in reliance on the decision of this Court in *General Talking Pictures v. Western Electric* (304 U. S. 175; 305 U. S. 124) Respondent and its predecessor, Hazeltine Corporation, have included in all of their license agreements relating to radio and television broadcast receivers, a patent license notice provision substantially in the form of that contained in the license agreement herein involved, namely:

> "• • • Licensee agrees to mark all licensed apparatus manufactured and sold by Licensee hereunder, in readily legible form, with the statement 'Licensed by Hazeltine Corporation only for use in homes, for educational purposes, and for private, non-commercial use, under one or more of the following patents and under pending applications:' followed by the word 'Patent' • • •" (R. 14).

and in practice such license notice was followed by a composite list of patents representing those in current use by Respondent's several licensees, a sample copy of which is in evidence as Exh. EE (R. 257);

In the fall of 1945, certain licensees of Respondent's predecessor, Hazeltine Corporation, requested permission to use a shorter form of license notice and one not requiring periodic revision to take account of expiring patents, newly granted patents, and changes in receiver designs;

During the month of September, 1945, prior to the resumption of the manufacture of civilian radio apparatus at the conclusion of World War II, Respondent's predecessor sent a letter to each of its licensees giving the licensee the right to use, in lieu of the license notice specified in its license agreement forms, a simple license notice reading:

"This apparatus is licensed under the
United States patent rights of
HAZELTINE CORPORATION"

and one of aforesaid letters was sent to Petitioner under date of September 5, 1945;

Each of aforesaid letters read substantially as follows, the letter below being a copy of that sent to Petitioner:

"Enclosed is a revised License Notice including a composite list of patents with respect to which you are licensed by Hazeltine Corporation and which are now employed in apparatus manufactured by our licensees.

"In case you use a composite list for the patent markings on any of the apparatus manufactured and/or sold by you, will you please take the steps necessary to revise your License Notice to conform to the attached, in accordance with the provisions of Article VI, Section 2, of your license agreement, and notify us when this has been done. This list will be effective until on or about January 1, 1946.

"In case you do not wish to use this composite list for patent marking, it will be satisfactory to us if the apparatus is marked as follows:

This apparatus is licensed under the
United States patent rights of
HAZELTINE CORPORATION";

That since September, 1945, it has continuously and uniformly been the practice of Respondent and its predecessor, Hazeltine Corporation, to grant to each new Hazeltine licensee in writing, at the time of execution of its respective license, the right to use aforesaid simplified license notice either in a form identical to that quoted above or with the words, "HAZELTINE RESEARCH, INC." substituted for the words "HAZELTINE CORPORATION" and since September, 1945, none of such licensees has used the longer form of license notice specified in the license agreement forms;

That, while new license agreement forms issued by Respondent since September, 1945, have continued to include a license notice provision substantially in the form of that contained in the license agreement here involved, such provision has been retained solely because it substantially conforms to that approved by this Court in the *General Talking Pictures* case while no Court has yet ruled upon the question as to whether the simpler form of license notice which Respondent has given its licensees the right to use complied with the patent marking requirements of Revised Statutes, Section 4900 (35 U. S. C. 49).

JOHN R. BINNS

Sworn to and subscribed before me this 24th day of March, 1950.

CAROLINE B. SCOTT
Notary Public
Commission Expires March 30, 1950

[Seal]

APPENDIX III

The Activities of the Department of Justice Toward Nullifying the *General Talking Pictures* Case

A summary of the activities of the Department of Justice toward nullifying the decision of this Court in the *General Talking Pictures* case and placing other impediments in the way of the legitimate exploitation of patent rights, with supporting bibliography, follows:

The Department of Justice initially submitted to the Temporary National Economic Committee (TNEC),[1] a joint Congressional Committee conducting an "Investigation of Concentration of Economic Power", its recommendations on changes to the Patent Laws to overcome abuses which it felt existed. Those recommendations were included and adopted in a Preliminary Report and Recommendations of the TNEC submitted to Congress on July 17, 1939.[2] The latter recommendations included one that would unconditionally outlaw any provision in a license agreement:

> "• • • which restricts the assignee or grantee in respect of the amount of any article which he may produce under the patent, the price at which he may sell any such article, the purpose for which or manner in which he may use the patent or any article produced thereunder, or the geographical area within which he may produce or sell such article. • • •" (p. 642).

In the same Preliminary Report were included (pp. 641-642) Recommendations of the Department of Commerce as to desirable amendments to the Patent Laws, which the Committee also adopted and recommended to Congress.

Commencing in January, 1941, the TNEC conducted extensive public hearings preparatory to formulating final

recommendations. At the request of the Committee, the Honorable Conway P. Coe, Commissioner of Patents, submitted his written comments on the recommendations of the Department of Justice. Mr. Thurman Arnold, then Assistant Attorney General, filed a reply to Commissioner Coe's submission (Id. pp. 18483-18489). The TNEC issued its Final Report and Recommendations under date of March 31, 1941, adopting in substance the recommendations of the Department of Justice including the recommendation that:

> "(b) *Unrestricted licenses.*—We recommend that the owner of any patent be required to grant only unrestricted licenses, and that he not be permitted to impose restrictions upon the buyer in sales of patented articles. In other words, the holder of a patent should not be permitted to restrict a licensee in respect of the amount of any article he may produce, the price at which he may sell, the purpose for which or the manner in which he may use the patent or any article produced thereunder, or the geographical area within which he may produce or sell such article. * * *"

As a result of the foregoing recommendations of the TNEC, a large number of bills were introduced in Congress to implement them. Considering only those bills dealing with the recommendation of unrestricted licenses, in 1942 there was introduced a Bill, S. 2303 (77th Congress), to provide for the use of patents in the interests of National Defense, including essentially the recommendation of the Department of Justice with respect to unrestricted licenses. During the hearings on this Bill, a representative of the Department of Justice suggested that provisions outlawing restricted licenses should be incorporated in a separate bill. Thereafter, on April 28, 1942, Senator O'Mahoney introduced a Bill, S. 2491 (77th Congress), providing, *inter alia*:

"Sec. 4. * * * it shall be unlawful, whether in connection with the selling or assigning of any rights under any patent previously or thereafter issued, or in connection with the granting of any license thereunder or otherwise, to impose or accept or agree to any condition or restriction on the said grant or license * * * where the said conditions or restrictions directly or indirectly restrict the purchaser, or assignee, or grantee, or licensee in respect of * * * (c) the purpose for which or the manner in which he may use any process covered by the patent on any article, machine, or composition produced under such patent; * * *."

Congress failed to enact into law either S. 2303 or S. 2491.

On June 13, 1945, Representative Voorhis introduced into the 79th Congress a Bill HR. 3462, and an identical Bill S. 2482 was introduced in the Senate. Each of these Bills proposed to amend the Clayton Act by adding a Section 29, reading in part as follows:

"Any use of a patent or patent application or of any interest therein which extends the monopoly granted by a patent beyond the invention covered by such grant including, but not limited to, any use which limits or restricts the licensor or any licensee, or the assignor or any assignee, with respect to the amount of any article he may produce, the price at which or terms or conditions on which he may sell any article, the purpose for which or the manner in which he may use the invention or any article produced thereunder, or the geographical area in which he may use the invention or produce or sell any article is hereby declared to be illegal. The use of any patent or patent application or of any interest therein in violation of this section shall render such patent or patent application null and void, and any court having jurisdiction of an action under the antitrust laws, civil or criminal, involving violation of this section shall adjudge that such patent or patent application is null and void. * * *"

S. 2482 was reintroduced in the 80th Congress by Senator Morse as S. 72. Congress failed to enact any of these three Bills.

Thus, Congress has repeatedly refused to enact legislation sponsored by the Department of Justice prohibiting the customary practice of dividing patent license rights among licensees in different fields of industry to which the patent may be applicable.

Undoubtedly, an influential factor in the persistent refusal of Congress to enact such legislation under the persuasion of the Department of Justice was the universal opposition of those disinterested groups and officials who had a knowledge of the practical workings of our Patent System. Thus, in the TNEC Hearings, Commissioner Coe expressed opposition to the recommendation of the Department of Justice on unrestricted licenses, saying:[3]

> "The granting of licenses containing restrictions as to use is usually well within the public interest, particularly with respect to inventions which have applications in different fields.
>
> "As an example, there may be mentioned the case of an inventor who developed a particular type of internal combustion engine after a great deal of experimental and development work. His company further developed the invention for use in stationary internal combustion engines which was their particular field. As soon as the interested public became aware of the value of the invention, a motor car company applied for and obtained a license to manufacture engines under the patent, the license being confined to automobile engines. A motorcycle company then applied for and obtained a license in the field of motorcycle engines. Another company, builders of marine motors, applied for and secured a license for using the invention in the marine motor field; many other special fields were developed and numerous separate licenses in those fields were granted. If nothing

but a general license could have been issued by the original inventor and his company these various fields of use might have had to wait until the expiration of the patent before the benefits of the invention could be fully utilized, because the company would have been unwilling to have others enter its specific field in which it was manufacturing under the patent.

"Illustrations like this can be multiplied indefinitely. There is no valid reason why, if a patented invention is susceptible of use in various fields, the patent owner should be prohibited generally from granting restricted licenses to allow others to practice the invention in these different fields.

"The Supreme Court has considered licenses of this character and stated, through Justice BRANDEIS, in the *General Talking Pictures* case, that they are 'reasonably within the reward which the patentee by the grant of the patent is entitled to secure.' 305 U. S. 124; 127."

The recommendation of the Department of Justice with respect to unrestricted licenses was also opposed by the National Patent Planning Commission, created by Executive Order of President Roosevelt on December 12, 1941, and directed to survey the American patent system and to recommend any changes which it might conclude were needed. The Commission's Report was transmitted by President Roosevelt to Congress on June 18, 1943.[5]

The Commission was composed of leaders of industry, education and labor:

Dr. Charles F. Kettering, Chairman of the National Inventors' Council and Vice-President of General Motors Corporation in charge of its Research Laboratories;
Chester C. Davis, Member of the Board of Governors of the Federal Reserve System;
Francis P. Gaines, President of Washington and Lee University;

Edward F. McGrady, formerly First Assistant Secretary of Labor, then in charge of Labor Relations for Radio Corporation of America;
Owen D. Young, Honorary Chairman of the Board of the General Electric Company;
Andrey A. Potter, Executive Director, and
Conway P. Coe, then Commissioner of Patents, Executive Secretary.

A portion of one section of this Report is reproduced herewith:

"X. Subjects Considered Without Recommendation

"During the course of its investigation the Commission received and gave serious study to many suggestions and proposals for reforming the patent system which *have not been made the subject of recommendation for one or more of the following reasons*:

"(1) The *proposed reforms would not be a beneficial innovation in our patent system.* Examples of such proposals are a broad compulsory licensing system, *outlawing certain limitations in patent licenses*, major and minor patents, patents for different terms of years, and opposition proceedings." (Emphasis added.)

The "Introduction" to the Commission Report is also instructive:

"In accordance with Executive Order No. 8977 of December 12, 1941, the National Patent Planning Commission has been engaged in a study of the American patent system and its operation.

"The American patent system established by the Constitution giving Congress the 'power to promote the progress of science and useful arts', is over 150 years old. The System has accomplished all that the framers of the Constitution intended. It is the only provision of the Government for the

promotion of invention and discovery and is the basis upon which our entire industrial civilization rests.

"The American people and their Government should recognize the fundamental rightness and fairness of protecting the creations of its inventors by the patent grant. The basic principles of the present system should be preserved. The system has contributed to the growth and greatness of our Nation; it has—

"(1) Encouraged and rewarded inventiveness and creativeness, producing new products and processes which have placed the United States far ahead of other countries in the field of scientific and technological endeavor;

"(2) Stimulated American inventors to originate a major portion of the important industrial and basic inventions of the past 150 years;

"(3) Facilitated the rapid development and general application of new discoveries in the United States to an extent exceeding that of any other country;

"(4) Contributed to the achievement of the highest standard of living that any nation has ever enjoyed;

"(5) Stimulated creation and development of products and processes necessary to arm the Nation and to wage successful war;

"(6) Contributed to the improvement of the public health and the public safety; and

"(7) Operated to protect the individual and small business concerns during the formative period of a new enterprise.

"*The strongest industrial nations have the most effective patent systems and after a careful study, the Commission has reached the conclusion that the American system is the best in the world.* However, as with any system of long standing, conditions arise which were not foreseen at the time of its

establishment. The American patent system should be adjusted to meet existing conditions without destroying its basic principles." (Emphasis added.)

During this same period (1939 to date), however, Congress, ever vigilant of the public interest, did enact into law a number of changes to the Patent Laws recommended by the Department of Commerce. Thus, its recommendation No. 3, providing for expediting Patent Office proceedings by eliminating appeals in interference cases, was embodied in amendments dated August 5, 1939, to Revised Statutes, Secs. 4904, 4909, 4911, and 4915 (35 U. S. C., Secs. 52, 57, 59(a), and 63, respectively); its recommendation No. 4, abolishing renewal applications, was effected by an amendment dated August 9, 1939, to Revised Statutes, Sec. 4885 (35 U. S. C., Sec. 41) and repeal of Revised Statutes, Sec. 4897 (35 U. S. C., Sec. 38); its recommendation No. 5, reducing the permitted public use prior to applying for a patent from two (2) years to one (1) year, was embodied in amendments dated August 5, 1939, to Revised Statutes, Secs. 4886, 4887, and 4920 (35 U. S. C., Secs. 31, 32, and 69, respectively); its recommendation No. 6, reducing the period within which a patent applicant might copy claims from an issued patent of another from two (2) years to one (1) year, was enacted in an amendment dated August 5, 1939, to Revised Statutes, Sec. 4903 (35 U. S. C., Sec. 51). Finally, its recommendation No. 7, permitting the Commissioner of Patents to require an applicant to respond to an official action in less than six months under appropriate circumstances, was enacted in an amendment dated August 7, 1939, to Revised Statutes, Sec. 4894 (35 U. S. C., Sec. 37). In addition, the following sections of the Patent Laws have been amended in the intervening period in minor and major respects:

Revised Statutes, Sec. 482 (35 U. S. C., Sec. 7), amended August 7, 1946;

35 U. S. C., Sec. 16, amended July 9, 1947;
35 U. S. C., Sec. 42, amendments of July 1, 1940 and June 16, 1942;
Revised Statutes, Sec. 4898 (35 U. S. C., Sec. 47), amended August 18, 1941;
Revised Statutes, Sec. 4921 (35 U. S. C., Sec. 70), amendment dated August 1, 1946;
Revised Statutes, Sec. 4934 (35 U. S. C., Sec. 78), amendment dated July 5, 1946.

The only conclusion to be drawn from the foregoing actions of Congress is that it has been ever diligent in making constructive amendments to the Patent Laws but has refused to be stampeded into taking hasty and unsound actions at the behest of the Department of Justice and has refused to tamper with a set of laws that has served the nation so well for so long and which the National Patent Planning Commission aptly characterized as "the best in the world".[3]

Defeated in its direct attack upon our patent system, the Department of Justice is now attempting to achieve the same objective indirectly. This subversive attempt should be quashed.

Bibliography

[1] Created by Public Resolution No. 113 of the 75th Congress, approved June 16, 1938.

[2] Senate Document 95 of the 76th Congress, Reproduced in "Proceedings of the TNEC", Vol. IV, No. 19, p. 642.

[3] Supplemental Data Submitted to the Temporary National Economic Committee, Part 31-A, pp. 18473-18483.

[4] Final Report and Recommendations of the Temporary National Economic Committee transmitted to the Congress of the United States—Senate Document No. 35, 77th Congress.

[5] The "American Patent System"—Message from the President of the United States transmitting the Report of the National Patent Planning Commission, House Document No. 239, 78th Congress.